

**UNITED STATES DISTRICT COURT
DISTRICT OF PUERTO RICO**

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In re:

PROMESA

Title III

THE FINANCIAL OVERSIGHT AND
MANAGEMENT BOARD FOR PUERTO RICO,

as representative of

No. 17 BK 04780-LTS

PUERTO RICO ELECTRIC POWER
AUTHORITY ("PREPA"),

(Jointly Administered)

Debtor.¹

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**SUMMARY SHEET ACCOMPANYING SECOND INTERIM FEE APPLICATION
OF MCKINSEY & COMPANY, INC. WASHINGTON D.C.
AS CONSULTING SERVICES PROVIDER TO THE FINANCIAL OVERSIGHT AND
MANAGEMENT BOARD FOR PUERTO RICO, AS REPRESENTATIVE OF PUERTO
RICO ELECTRIC POWER AUTHORITY, FOR THE PERIOD FROM
OCTOBER 1, 2017 THROUGH JANUARY 31, 2018**

Name of Applicant:

McKinsey & Company, Inc. Washington D.C.
("McKinsey")

Authorized to Provide Services to:

The Financial Oversight and Management Board for
Puerto Rico, as Representative of Puerto Rico Electric
Power Authority, Debtor Pursuant to PROMESA
Section 315(b)

Period for which Compensation
and Reimbursement is Sought:

October 1, 2017 through January 31, 2018

Monthly Fee Statements Subject
to Second Interim Fee Request:

Consolidated Second Monthly Fee Statement
for Compensation for Services Rendered
From October 1, 2017 Through October 31, 2017,
dated January 16, 2018

Consolidated Third Monthly Fee Statement for
Compensation for Services Rendered From November

¹ The last four (4) digits of PREPA's federal tax identification number are 3747.

1, 2017 Through January 31, 2018, dated March 16,
2018

Total Fees Requested for Second
Interim Compensation Period:

\$2,960,000.00

Total expenses requested:

\$0.00²

Total fees and expenses:

\$2,960,000.00

Second Interim Holdback:

\$296,000.00 (10%)

Total payment requested for
Second Interim Period:

**\$2,294,000.00 (90% of unpaid fees totaling
\$1,998,000.00 plus 10% holdback of \$296,000.00)**

Total fees and expenses paid to date
or subject to an Objection:

**\$1,998,000.00 paid to date (90% of First Interim
Fee Application requested fees of \$2,220,000.00)**

Type of Application:

Second Interim Fee Application:
Title III Support for PREPA

Deadline for parties other than notice
parties to file objections:

April 9, 2018

² McKinsey provides services on a fixed fee basis, and as such, seeks no reimbursement of expenses.

UNITED STATES DISTRICT COURT
DISTRICT OF PUERTO RICO

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PROMESA

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THE FINANCIAL OVERSIGHT AND
MANAGEMENT BOARD FOR PUERTO RICO,

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No. 17 BK 04780-LTS

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**SECOND INTERIM FEE APPLICATION
OF MCKINSEY & COMPANY, INC. WASHINGTON D.C.
AS CONSULTING SERVICES PROVIDER TO THE FINANCIAL OVERSIGHT AND
MANAGEMENT BOARD FOR PUERTO RICO, AS REPRESENTATIVE OF PUERTO
RICO ELECTRIC POWER AUTHORITY, FOR THE PERIOD FROM
OCTOBER 1, 2017 THROUGH JANUARY 31, 2018**

McKinsey & Company, Inc. Washington D.C. (“McKinsey”), strategic consultants to Debtor
in the above-captioned case, respectfully represents:

INTRODUCTION

1. By this second interim fee application (the “Second Interim Fee Application”), McKinsey seeks the allowance and payment of compensation for professional services related to Title III support for Puerto Rico Electric Power Authority (“PREPA” or the “Debtor”) rendered pursuant to the *First Amended Order Setting Procedures for Interim Compensation and Reimbursement of Expenses of Professionals*, entered on November 8, 2017 [Docket Number 1715] (the “Interim

³ The last four (4) digits of PREPA’s federal tax identification number are 3747.

Compensation Order”), the applicable provisions of Title 11 of the United States Code (the “Bankruptcy Code”), the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”), the Local Bankruptcy Rules of the United States Bankruptcy Court for the District of Puerto Rico (the “Local Rules”) and Appendix B of the *U.S. Trustee’s Guidelines for Reviewing Applications for Compensation and Reimbursement of Expenses Filed Under 11 U.S.C. §330 by Attorneys in Large Chapter 11 Cases Effective as of November 1, 2013* (the “U.S. Trustee Guidelines,” and together with the Interim Compensation Order, the Bankruptcy Code, the Bankruptcy Rules and the Local Rules, the “Code and Rules”). Pursuant to the Bankruptcy Code, the Bankruptcy Rules and the Local Rules, the Certification of Tyler Duvall, a Partner of McKinsey, regarding compliance with the statutory and legal authority cited above is attached hereto as Exhibit A.

2. By this Second Interim Fee Application, McKinsey seeks allowance of compensation for professional services performed by McKinsey for PREPA for the period from October 1, 2017 through January 31, 2018 (the “Compensation Period”) in the aggregate amount of \$2,960,000.00, representing 100% of fees incurred during the Compensation Period. McKinsey submits that allowance and payment of this amount is fully warranted given the actual and necessary services rendered to the Debtor by McKinsey, as described in this Second Interim Fee Application. The Debtor has not previously paid any amounts in respect of the foregoing requested fees and expenses.

BACKGROUND AND JURISDICTION

3. On May 3, 2017 (the “Petition Date”), PREPA, by and through the Financial Oversight and Management Board for Puerto Rico (the “Oversight Board”), as PREPA’s representative pursuant to section 315(b) of the Puerto Rico Oversight, Management, and Economic Stability

Act (“PROMESA”), filed a petition (the “Petition”) with the United States District Court for the District of Puerto Rico (the “Court”) under Title III of PROMESA.

4. On May 5, 2017, the Puerto Rico Sales Tax Financing Corporation (“COFINA,” and together with the Commonwealth (the “Commonwealth”) of Puerto Rico, the “Debtors”), by and through the Oversight Board, as COFINA’s representative pursuant to PROMESA section 315(b), filed a petition (“COFINA’s Petition,” and together with the Commonwealth’s Petition, the “Petitions”) with the Court under Title III of PROMESA. The filings of the Petitions constitute orders for relief under Title III of PROMESA.
5. On May 9, 2017, the Debtor filed a motion seeking the joint administration of the Title III cases (the “Title III Cases”) for procedural purposes only, pursuant to PROMESA section 304(g) and Bankruptcy Rule 1015, made applicable to these Title III Cases by PROMESA section 310. On June 1, 2017, the Court ordered that the cases be consolidated for procedural purposes and be jointly administered.
6. On June 15, 2017, an Official Committee of Unsecured Creditors and an Official Committee of Retirees was appointed in the Title III case by the United States Trustee for Region 21.
7. On November 8, 2017, the Court entered *the First Amended Order Setting Procedures for Interim Compensation and Reimbursement of Expenses of Professionals* (the “Interim Compensation Order”), which directs that professionals in the Title III Cases be paid interim compensation and outlines the procedures by which professionals are to submit, at four-month intervals, “an application for interim Court approval and allowance of the payment of compensation.”
8. This Court has subject matter jurisdiction over this matter pursuant to PROMESA section 306(a). Venue is proper in this district pursuant to PROMESA section 307(a).

THE RETENTION OF MCKINSEY

9. On or about July 3, 2017, McKinsey & Company, Inc. Washington DC (“McKinsey”), a management consulting firm that serves the federal government, state and local agencies and the private sector, was retained by the Board to provide consulting services in support of the Title III litigation (the “Consulting Agreement”). The scope of this Second Interim Fee Application relates to the Consulting Agreement’s Scope of Work for Title III Support for PREPA (“PREPA SOW”).
10. At the Board’s request, and consistent with how McKinsey serves its federal, state, local government, and commercial clients, McKinsey’s fee structure under the PREPA SOW of the Consulting Agreement was constructed on a deliverables-based monthly firm fixed price basis of \$740,000.00.
11. These fixed monthly rates are similar to rates that McKinsey charges for professional services rendered in comparable matters. Such fees are reasonable based on the customary compensation in a competitive market.
12. There is no agreement or understanding between McKinsey and any other nonaffiliated person for the sharing of compensation to be received for services rendered in the Title III Cases.

**SUMMARY DESCRIPTION OF SERVICES PERFORMED –
TITLE III SUPPORT FOR PREPA**

13. Set forth below is a brief summary of the principal matters on which McKinsey provided services in connection with the PREPA SOW during the Compensation Period. The summary is intended to be just that – a summary – and not a detailed description of all the work performed during the Compensation Period. The complete details setting forth the day-to-day services provided by McKinsey professionals is included in McKinsey’s Consolidated Second Monthly

Fee Statement for Compensation For Services Rendered from October 1, 2017 through October 31, 2017 (the “Second Monthly Fee Statement”), and in McKinsey’s Third Monthly Fee Statement for Compensation For Services Rendered from November 1, 2017 through January 31, 2018 (the “Third Monthly Fee Statement”), attached hereto as Exhibit B. A list of McKinsey professionals who rendered services during the Compensation Period is attached hereto as Exhibit C.

Title III Support for PREPA

October 2017:

During the month of October, McKinsey’s PREPA Title III Team developed an initial view of PREPA post-hurricane, from a financial, operational, and strategic perspective. From a financial perspective, the McKinsey team estimated the operational funding deficit and reconstruction costs for PREPA resulting from the hurricane, for the seven quarters following the hurricane, for the purposes of a federal funding and loan request. From an operational perspective, the McKinsey team developed the scope, responsibility, and initial roadmap for a PREPA Chief Transformation Officer appointed by the FOMB (note that this appointment was later rejected by the court). Finally, from a strategic perspective, the McKinsey team developed an initial view of the options and costs to rebuild the power grid in Puerto Rico to be resilient for future storms, as well as finalized a draft of the pre-hurricane Transformation.

The core activities related to Title III support for PREPA during the period included:

- Developed and updated complete pre-hurricane Transformation Plan draft for federal and other stakeholder briefings on PREPA pre-hurricane state
 - government-drafted materials with content developed on privatization and future generation mix
 - Finalized recommendations for Transformation Plan next steps
 - Developed summary briefing materials
- Estimated PREPA operational funding deficit and reconstruction costs for FY Q2 2018 and through FY Q4 2019 for initial federal funding request
 - Worked in collaboration with PREPA advisors to estimate post-hurricane changes in revenue and operating costs
 - Developed top-down estimate of reconstruction costs based on initial damage report and benchmarked unit costs for system
- Drafted PREPA Interim Manager scope and responsibilities

- Provided Board update on PREPA during PREPA subcommittee meeting including overview of pre-Maria transformation planning efforts; estimate of damage and repair costs; outline of key Board decisions on Fiscal Planning, interim manager appointment, privatization, and short and long-term reconstruction; and immediate next steps for Board
- Prepared Board-appointed PREPA Chief Transformation Officer for role
 - Outlined organizational structure for CTO support
 - Developed Day 1, week 1, month 1 action plan for CTO
 - Developed avenues to bring utility expertise to CTO role
- Developed initial view of options to re-build a resilient power grid in Puerto Rico
 - Estimated costs and benefits of grid hardening in Puerto Rico
 - Estimated costs and benefits of redesigning the grid to be more resilient (e.g. microgrid locations, generation closer to load centers)
 - Participated in meeting with industry and academic experts on building a resilient power grid in Puerto Rico

November 2017:

During the month of November, McKinsey's PREPA Title III Team conducted analyses to develop the Board's perspective on evaluating the current state of PREPA, the electric grid, and the how the current Fiscal Plan will be revised to reflect new objectives and implementation post-hurricanes. The work consisted of three major categories of analysis:

- (1) Transformation Plan guidance including principles and expectations;
- (2) Macro resource planning including an understanding of damage and implications for reconstruction and future investment;
- (3) Operational analysis focused on improvements to PREPA and understanding liquidity.

The work of the McKinsey Team led to an early perspective on principles to guide the development of the new Fiscal Plan, potential for operational improvements, and an understanding of the current grid and options for the future. These activities also identified outstanding questions the Board may need to consider in its evaluation of the Government's submitted fiscal plan. Throughout the month, the McKinsey Team also reinstated weekly Transformation Plan Working Group sessions with key stakeholders and held conversations with a variety of experts to help inform the Board's next steps. The November work set the stage for an independent perspective on key components of the Fiscal Plan and communication to set expectations for the Fiscal Plan submission in the month of December.

The core activities related to Title III support for PREPA during the period included:

- Establish criteria for evaluation of Fiscal Plan
 - Identified key components in a Fiscal Plan which would lead to expedited restoration and a sustainable power sector in Puerto Rico
 - Developed set of guiding principles aligned with principles established for Commonwealth to incorporate into PREPA Fiscal Plan
 - Aligned with government on roles and responsibilities for Transformation Plan
 - Aligned with government on analyses needed for Transformation Plan updates
 - Briefed Board on evaluation of drafts/working papers related to Fiscal Plan
- Organized weekly Transformation Plan Working Group
 - Established weekly meeting to monitor key concerns, align on expectations for Fiscal Plan, and provide forum for communication and sharing (working group meetings – Nov 10, 15, 22)
 - Built dashboard to understand restoration goals and progress
 - Set up weekly liquidity dialogue to understand near-term position
- Support models and documentation for key components
 - Developed bottom-up model to understand implications of damage and reports
 - Developed model to understand cost of restoration and implications of resiliency and generation additions on long-term capital expenditures and operating expenses in different scenarios
 - Created a list of data needed to inform view and obtained initial figures
- CTO planning and operational support for PREPA
 - Participated in three CTO planning meetings to develop a CTO day 1 action plan, short-term goals, and options for further action
 - Created go-forward plan for Board post-CTO decision
 - Submitted Critical Projects Final Report draft for Energy Answers to Revitalization Coordinator for review
- Establish path towards Privatization
 - Evaluated trade-offs between different privatization and other short-term management options
 - Created preliminary set of KPIs to evaluate bids

December 2017:

During the month of December, McKinsey's PREPA Title III Team continued to conduct analyses to develop the Board's perspective on evaluating the current state of PREPA, the electric grid, and work in progress Fiscal Plan which is being revised to reflect goals and implementation

post-hurricanes. The work consisted of three major categories of analysis:

- (1) Macro resource planning including an understanding of optimal cases for generation, grid design, and market structure;
- (2) Industry structure including paths towards privatization and implications;
- (3) Regulatory design to incentivize best practices and encourage investment.

The work of the McKinsey Team led to a publicly distributed view on principles to guide the development of the new Fiscal Plan, a view on optimal grid design components, and an understanding of privatization potential including paths, stakeholders, roles, and interests. These activities also identified outstanding questions the Board may need to consider in its evaluation of Government's submitted Fiscal Plan and privatization options. The December work set the stage for a review of the upcoming Fiscal Plan and a view which can be incorporated or used as a benchmark for the Plan.

The core activities related to Title III support for PREPA during the period included:

- Establish view on key components of Fiscal Plan including starting points for IRP decisions
 - Developed demand forecast to incorporate new environment
 - Built view on generation potential in new potential scenarios
 - Evaluated grid and market structures to determine best fits for Puerto Rico
 - Aligned with government on analyses needed for Transformation Plan updates
 - Briefed Board on key components of Fiscal Plan
- Conduct Transformation Plan Working Group
 - Continued weekly meetings to monitor key concerns, aligned on expectations for Fiscal Plan, and provide forum for communication and sharing
 - Maintained weekly liquidity dialogue to attempt to understand near-term position
- Support models and documentation for key components
 - Built financial model to understand cost drivers and impact on rate structure
 - Demand forecast to provide view on demand environment where typical regression may not be applicable due to major shift
 - Built in-depth energy generation model to comprehensively evaluate options
- Evaluate paths towards privatization
 - Created path towards privatization which incorporated returns under different models, timing considerations, stakeholders, tools available to the Board, and required stakeholder actions (e.g., regulatory structure and federal funding)
 - Created a list of KPIs to evaluate bids and hold investors accountable for performance

- Explore regulatory structures and applicability in Puerto Rico
 - Evaluated tradeoffs between structures across value chain and steps required for implementation
 - Identified alternatives for Puerto Rico across a range of factors
- Crafted public letter outlining principles guiding evaluation of Fiscal Plan

January 2018:

During the month of January, McKinsey's PREPA Title III Team conducted analyses and diligence to develop the Board's perspective on the latest PREPA Fiscal Plan, submitted in draft form January 10th and to be certified in March, which will be further refined and revised to reflect goals and implementation post-hurricane. The work consisted of three major categories of analysis:

- (1) Developing the Board's perspective on the PREPA revised Fiscal Plan: This work consisted of four major categories of analysis: (1) Macro resource planning including an understanding of optimal cases for generation, grid design, and market structure in the new projected demand environment; (2) Industry structure including paths towards privatization and implications; (3) cost saving opportunities through overhead reduction and subsidy reform; and (4) rate structure and design to enable a sustainable utility operating model while preserving customer flexibility; as well as diligence of PREPA's Fiscal Plan. This work led to a set of required revisions to the PREPA Fiscal Plan communicated to the Government and PREPA through a Notice of Violation issued February 4th, as well as a Board perspective on the pathway to achieve reliable, resilient power at lower electricity rates in Puerto Rico.
- (2) Developing a perspective on the Government's proposed model for an energy regulator: This work consisted of developing an independent perspective on the ideal future state energy regulator in Puerto Rico, as well as evaluating proposals, both in the Commonwealth Fiscal Plan and in proposed Puerto Rico legislation, by the Government for a future state energy regulator. This work led to an aligned view with the Government on the needed model to ensure a robust and independent energy regulator.
- (3) Diligence on a request for emergency financing to be provided from the Commonwealth to PREPA: This work consisted of working sessions, document, and data review to assess the need for a loan proposed by the Commonwealth to PREPA for immediate liquidity needs, as well as diligence on potential cash management measures for PREPA to undertake. This work led to a set of agreed-upon cash management data and metrics, with timelines and targets, to be provided by PREPA to the Board as part of the reporting requirements for receipt of the loan.

The core activities related to Title III support for PREPA during the period included:

- Developing Board's perspective on the PREPA revised Fiscal Plan
 - Refined view of demand forecast and least cost power generation outlook; translated into potential fuel cost savings
 - Developed perspective on utility concession model, focusing on viability in Puerto Rico
 - Analyzed existing power sector concession examples to create a potential framework for PREPA
 - Analyzed potential realistic scenarios for federal funding and implications for utility financial structure
 - Developed model for rate structure and design choices
 - Developed financial model for future state utility operator
 - Estimated potential operations and maintenance savings from PREPA achieving efficiencies in line with mainland US utilities
 - Analyzed PREPA's draft Fiscal Plan against Board perspective
 - Developed set of initial and final required revisions for PREPA's Fiscal Plan as a condition of certification
- Developing a perspective on the Government's proposed model for an energy regulator
 - Analyzed case examples and existing models to develop a perspective on the preferred regulatory model in Puerto Rico
 - Conducted diligence on proposal by Government within draft Commonwealth Fiscal Plan and within legislation proposed in the Puerto Rico House and Senate to replace current state energy regulator with a consolidated Public Services Commission
 - Led meetings with PREPA and Board advisors to develop a shared view of the end state energy regulator and transitional state to achieve end state
 - Presented and aligned on final view of energy regulator with Board and Government
- Diligence on the request for emergency financing to be provided by the Commonwealth the PREPA
 - Led diligence session with Board and Government to develop view of current cash flow situation and cash management initiatives currently under way
 - Developed request for documentation supporting current cash flow situation, e.g. AP/AR aging report, purchased power payment record and contract terms
 - Developed cash management initiatives with target levels of cost reduction or revenue enhancement, milestones, and reporting requirements, to be included as part of regular reporting to Board during period of loan withdrawals
 - Advised counsel on loan terms and conditions, e.g. size and frequency of allowable draws

SUMMARY OF PROFESSIONAL COMPENSATION REQUESTED

14. Pursuant to the Interim Compensation Order, on December 12, 2017, McKinsey served on the Notice Parties (as defined therein) the Consolidated First Monthly Fee Statement for services rendered from July 1, 2017 through and including September 30, 2017 (the “Consolidated First Monthly Fee Period”). On February 2, 2018, McKinsey was paid \$1,332,000.00, representing ninety (90%) of its requested fees of \$1,480,000.00,⁴ in connection with McKinsey’s services related to Title III support for PREPA during the Consolidated First Monthly Fee Period, leaving an outstanding ten (10%) percent holdback (the “First Interim Holdback”) of \$148,000.00
15. In accordance with the Interim Compensation Order, on December 15, 2017, McKinsey filed its First Interim Fee Application (the “First Interim Fee Application”) for the period May 3, 2017 through and including September 30, 2017 (the “First Interim Compensation Period”) [Docket No. 2074]. Pursuant to the First Interim Fee Application, McKinsey sought (i) an interim allowance of \$4,608,000.00, representing ninety (90%) percent of its total fees of \$5,120,000.00 incurred during the First Interim Compensation Period and (ii) payment of the outstanding ten (10%) percent holdback (the “First Interim Holdback”) in the amount of \$512,000.00. Pursuant to the Court’s Order dated March 7, 2018, the hearing on the First Interim Fee Application was deferred on consent to April 25, 2018 [Docket No. 2685].
16. In accordance with the Interim Compensation Order, on January 16, 2018, McKinsey served on the Notice Parties (as defined therein) the Second Monthly Fee Statement for services rendered from October 1, 2017 through October 31, 2017 (the “Second Monthly Fee Period”). On

⁴ Of the \$5,120,000.00, \$1,480,000.00 represents requested compensation for professional services related to Title III support for PREPA, of which 90%, in the amount of \$1,332,000.00, was paid on February 2, 2018. The balance of \$3,640,000.00 represents requested compensation related to other scopes of work performed during the Consolidated First Monthly Fee Period under the Consulting Agreement.

February 28, 2018, McKinsey was paid \$666,000.00, representing ninety (90%) of its requested fees of \$740,000.00 in connection with McKinsey's services related to Title III support for PREPA during the Second Monthly Fee Period, leaving an outstanding ten (10%) percent holdback (the "First Interim Holdback") of \$74,000.00.

17. In accordance with the Interim Compensation Order, on March 16, 2018, McKinsey served on the Notice Parties (as defined therein) the Third Monthly Fee Statement for services rendered from November 1, 2017 through January 31, 2018 (the "Third Monthly Fee Period").

18. As reflected in the Third Monthly Fee Statement, during the Third Monthly Fee Period, McKinsey incurred \$2,220,000.00 in fees related to Title III support for PREPA and sought payment of ninety (90%) percent of such fees (\$1,998,000.00) in accordance with the Interim Compensation Order. To date, McKinsey has not been paid any fees for services rendered during the Third Monthly Fee Period.

19. Pursuant to this Second Interim Fee Application, McKinsey seeks an interim allowance and payment of \$2,960,000.00, representing ninety (90%) percent of its total fees (\$2,664,000.00) incurred during the Compensation Period along with payment of the outstanding ten (10%) percent holdback (the "Second Interim Holdback") in the amount of \$296,000.00, for a total of \$2,960,000.00.

20. All services performed by McKinsey for which fees are requested herein were performed or incurred for and on behalf of the Debtor and were not for any other person or entity.

THE REQUESTED COMPENSATION SHOULD BE ALLOWED

21. Section 331 of the Bankruptcy Code provides for interim compensation of professionals and incorporates the substantive standards of section 330 to govern the Court's award of such

compensation. Section 330 of the Bankruptcy Code provides that a court may award a professional "reasonable compensation for actual necessary services rendered ... and reimbursement for actual, necessary expenses." 11 U.S.C. § 330(a)(1). Section 330 sets forth the criteria for the award of such compensation and reimbursement:

In determining the amount of reasonable compensation to be awarded ..., the court should consider the nature, the extent, and the value of such services, taking into account all relevant factors, including-

- (A) the time spent on such services;
- (B) the rates charged for such services;
- (C) whether the services were necessary to the administration of, or beneficial at the time at which the service was rendered toward the completion of, a case under this title;
- (D) whether the services were performed within a reasonable amount of time commensurate with the complexity, importance, and nature of the problem, issue, or task addressed;
- (E) with respect to a professional person, whether the person is board certified or otherwise has demonstrated skill and experience in the bankruptcy field; and
- (F) whether the compensation is reasonable based on the customary compensation charged by comparably skilled practitioners in cases other than cases under this title 11 U.S.C. § 330(a)(3).

22. As demonstrated by this Second Interim Fee Application and the exhibits attached hereto, the services that McKinsey rendered during the Compensation Period were reasonable, necessary and appropriate. McKinsey expended its time economically and without unnecessary duplication of effort. In addition, the work conducted was carefully assigned to appropriate professionals, according to the experience and level of knowledge required for each particular task. Accordingly, approval of the compensation sought herein is warranted.

CONCLUSION

WHEREFORE, McKinsey respectfully requests that the Court enter an order (i) awarding McKinsey an interim allowance and payment of compensation for the Compensation Period in the total amount of \$2,960,000.00, (ii) directing payment by the Debtor of any and all outstanding amounts allowed but not yet paid by the Debtor pursuant to the Interim Compensation Order, including the Second Interim Holdback in the amount of \$296,000.00, (iii) authorizing and directing the Debtor to pay McKinsey the total amount of such interim fees, and (iv) granting such other relief as this Court deems just and proper.

Dated: March 19, 2018
Washington DC

McKinsey & Company, Inc. Washington DC

s/ Tyler Duvall
Tyler Duvall, Partner
McKinsey & Company, Inc. Washington DC
1200 19th Street NW Suite 1100
Washington DC 20036
Telephone: (202) 662 0078
Email: tyler_duvall@mckinsey.com

Strategic Consultant to the Debtor

Certificate of Service

1. Notice of this Second Interim Fee Application has been or will be provided by overnight delivery

to:

FOMB:

Financial Oversight and Management Board
40 Washington Square South
Office 314A
New York, NY 10012
Attn: Professor Arthur J. Gonzalez
FOMB Board Member

Co-Counsel for FOMB:

Proskauer Rose LLP,
Eleven Times Square
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Attn: Martin J. Bienenstock, Esq. and Ehud Barak, Esq.
And
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Co-Counsel for FOMB:

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Attn: Hermann D. Bauer, Esq.

Counsel for AAFAF:

O'Melveny & Myers LLP,
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Suzanne Uhland, Esq.
Diana M. Perez, Esq.

Office of United States Trustee:

Office of the United States Trustee for the District of Puerto Rico
Edificio Ochoa, 500 Tanca Street
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(In re: Commonwealth of Puerto Rico)

Co-Counsel for the Official Committee of Unsecured Creditors:

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Andrew V. Tenzer, Esq.

Michael E. Comerford, Esq.

G. Alexander Bongartz, Esq.

and

Casillas, Santiago & Torres, LLC (Proposed)

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Diana M. Battle-Barasorda, Esq.

Alberto J. E. Añeses Negrón, Esq.

Ericka C. Montull-Novoa, Esq.

Co-Counsel for the Official Committee of Retired Employees:

Jenner & Block LLP

919 Third Ave.

New York, NY 10022-3908

Attn.: Robert Gordon, Esq.

Richard Levin, Esq.

and

Bennazar, Garcia & Millian, C.S.P.

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Avenida Ponce de Leon #416

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Puerto Rico 00918

Attn.: A.J. Bennazar- Zequeira, Esq.

Fee Examiner

Brady Williamson

One East Main Street

Suite 500

Madison, WI 53703-3300

EXHIBIT A

UNITED STATES DISTRICT COURT
DISTRICT OF PUERTO RICO

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In re:

PROMESA

Title III

THE FINANCIAL OVERSIGHT AND
MANAGEMENT BOARD FOR PUERTO RICO,

as representative of

No. 17 BK 04780-LTS

PUERTO RICO ELECTRIC POWER
AUTHORITY ("PREPA"),

(Jointly Administered)

Debtor.

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**CERTIFICATION OF TYLER DUVAL IN SUPPORT OF SECOND INTERIM FEE
APPLICATION OF MCKINSEY & COMPANY, INC. WASHINGTON D.C.
AS CONSULTING SERVICES PROVIDER TO THE FINANCIAL OVERSIGHT AND
MANAGEMENT BOARD FOR PUERTO RICO, AS REPRESENTATIVE OF PUERTO
RICO ELECTRIC POWER AUTHORITY, FOR THE PERIOD
FROM OCTOBER 1, 2017 THROUGH JANUARY 31, 2018**

I, Tyler Duvall, certify as follows:

1. I am a Partner in the firm of McKinsey & Company, Inc. Washington DC ("McKinsey"). I submit this certification with respect to the second interim fee application of McKinsey as consulting services provider in the above-captioned case (the "Second Interim Fee Application") for the allowance of compensation for professional services rendered during the relevant application period.
2. I make this certification in accordance with the *First Amended Order Setting Procedures for Interim Compensation and Reimbursement of Expenses of Professionals*, entered on November 8, 2017 [Docket Number 1715] (the "Interim Compensation Order").
3. In connection therewith, I hereby certify that:
 - (a) I have read the Second Interim Fee Application;
 - (b) To the best of my knowledge, information and belief formed after reasonable inquiry, the fees sought in the Second Interim Fee Application are in substantial compliance with the Interim Compensation Order and the United States Trustee Guidelines for Reviewing Applications for Compensation and Reimbursement of Expenses Filed Under 11 U.S.C. § 330, adopted on January 30, 1996; and

- (c) The Debtor, the United States Trustee, the official committee of unsecured creditors and the official committee of retirees of the Debtor have been provided with a copy of the Second Interim Fee Application simultaneously with the filing thereof, and will have at least 10 days to review such Second Interim Fee Application prior to any objection deadline with respect thereto.

Dated: March 19, 2018
Washington DC

/s/ Tyler Duvall

Tyler Duvall, Partner
McKinsey & Company, Inc. Washington DC
1200 19th Street NW Suite 1100
Washington DC 20036
Telephone: (202) 662 0078
Email: tyler_duvall@mckinsey.com

EXHIBIT B

UNITED STATES DISTRICT COURT
DISTRICT OF PUERTO RICO

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In re: PROMESA
Title III

THE FINANCIAL OVERSIGHT AND
MANAGEMENT BOARD FOR PUERTO RICO,

as representative of

No. 17 BK 3283-LTS

THE COMMONWEALTH OF PUERTO RICO, *et al.* (Jointly Administered)

Debtors.¹

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**SECOND MONTHLY FEE STATEMENT OF MCKINSEY & COMPANY, INC.
WASHINGTON D.C. FOR COMPENSATION FOR SERVICES RENDERED FOR THE
PERIOD OCTOBER 1, 2017 THROUGH OCTOBER 31, 2017**

Name of Professional: McKinsey & Company, Inc. Washington D.C.
(“McKinsey”)

Authorized to Provide Services to: The Financial Oversight and Management Board for
Puerto Rico, as Representative of the Debtors
Pursuant to PROMESA Section 315(b)

Period for which compensation
and reimbursement is sought: October 1 – 31, 2017

Amount of compensation sought
as actual, reasonable and necessary: **\$1,480,000.00**

Amount of expense reimbursement sought
as actual, reasonable and necessary²: **\$0.00**

Type of Fee Statement : Second Monthly Fee Statement³

¹ The Debtors in these Title III Cases, along with each Debtor’s respective Title III case number and the last four (4) digits of each Debtor’s federal tax identification number, as applicable, are the (i) Commonwealth of Puerto Rico (Bankruptcy Case No. 17 BK 3283-LTS) (Last Four Digits of Federal Tax ID: 3481); (ii) Puerto Rico Sales Tax Financing Corporation (“COFINA”) (Bankruptcy Case No. 17 BK 3284-LTS) (Last Four Digits of Federal Tax ID: 8474); (iii) Puerto Rico Highways and Transportation Authority (“HTA”) (Bankruptcy Case No. 17 BK 3567-LTS) (Last Four Digits of Federal Tax ID: 3808); and (iv) Employees Retirement System of the Government of the Commonwealth of Puerto Rico (“ERS”) (Bankruptcy Case No. 17 BK 3566-LTS) (Last Four Digits of Federal Tax ID: 9686). (Title III case numbers are listed as Bankruptcy Case numbers due to software limitations).

² McKinsey provides services on a fixed fee basis, and as such, seeks no reimbursement of expenses.

³ Notice of this Second Monthly Fee Statement (as defined herein) has been served in accordance with the Interim Compensation Order (as defined herein) and objections to payment of the amounts described in this Monthly Fee Statement shall be addressed in accordance with the Interim Compensation Order.

1. Pursuant to the *First Amended Order Setting Procedures for Interim Compensation and Reimbursement of Expenses of Professionals*, entered on November 8, 2017 [Docket Number 1715] (the “Interim Compensation Order”), the applicable provisions of the United States Code (the “Bankruptcy Code”), the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”), and the Local Bankruptcy Rules for the United States Bankruptcy Court for the District of Puerto Rico (the “Local Rules”), McKinsey & Company, Inc. Washington D.C. (“McKinsey”), strategic consultants to The Financial Oversight And Management Board For Puerto Rico (the “Debtors” or the “Board”), hereby serves this Second Monthly Fee Statement for the allowance of compensation for reasonable and necessary strategic consulting services and support that McKinsey provided during the month of October 2017 (the “Fee Period”) pursuant to the consulting agreement entered into between McKinsey and the Board on or about and July 3, 2017 for consulting services in support of the Title III litigation (the “Consulting Agreement”). Pursuant to the Bankruptcy Code, the Bankruptcy Rules and the Local Rules, a Certification of Tyler Duvall, a Partner of McKinsey, regarding compliance with the statutory and legal authority cited above is attached hereto as Exhibit A.
2. By this Second Monthly Fee Statement, McKinsey seeks allowance of compensation for services rendered under the Consulting Agreement during the Fee Period in the amount of \$1,332,000.00 (which equals 90% of the compensation sought herein, in accordance with Section 2.c of the Interim Compensation Order).

Summary of Services Rendered During the Fee Period

3. As described in McKinsey’s First Monthly Fee Statement (dated December 14, 2017), the scope of work under the Consulting Agreement (included at Exhibit B) is divided into three

- (3) distinct workstreams: (i) Title III Support for PREPA; (ii) Commonwealth Title III Support; and (iii) Title III Support for HTA.
4. During the Fee Period, McKinsey provided a focused range of professional services as requested by the Board and reflected in the Consulting Agreement for two of the three workstreams, namely (ii) Title III Support for PREPA; and (iii) Commonwealth Title III Support.
 5. Included at Exhibit C is a detailed summary of McKinsey's scope of services, deliverables and team member activities performed during the Fee Period.
 6. Included at Exhibit D are copies of McKinsey's monthly invoices³ for fees incurred during the Fee Period pursuant to the Consulting Agreement. McKinsey's fees – as reflected in the invoices – are based on the usual and customary fees McKinsey charges to clients and are commensurate with the services performed. As reflected in Exhibit D, McKinsey incurred \$1,480,000.00 in fees during the Fee Period, and now seeks reimbursement for 90% of such fees (\$1,332,000.00).
 7. The efforts expended by McKinsey during the Fee Period have been commensurate with the size and complexity of these cases. In rendering these services, McKinsey has made every effort to maximize the benefit to the Debtors, to work efficiently with the other professionals employed in these cases, and to leverage staff appropriately in order to minimize duplication of effort.

³ The invoices included at Exhibit D reflect Puerto Rico withholding tax (29%), which is applicable to payments for services performed in Puerto Rico. In accordance with the terms of the Consulting Agreement, McKinsey has calculated the proportion of fees attributable to work performed in Puerto Rico and determined the applicable tax to be withheld by the client for payment to the Puerto Rico tax authorities. The net amount reflected on the invoices to be collected by McKinsey is consistent with the terms of the Consulting Agreement.

8. McKinsey respectfully submits that the amounts applied for herein for professional services rendered on behalf of the Board in these cases to date are fair and reasonable given: (a) the time expended; (b) the nature and extent of the services performed at the time at which such services were rendered; and (c) the value of such services.

Representations

9. While every effort has been made to include all fees incurred by McKinsey during the Fee Period, some fees may not be included in this Second Monthly Fee Statement due to certain unavoidable delays caused by accounting and processing during the Fee Period. McKinsey reserves the right to make further application(s) for allowance of such fees not included herein. Subsequent fee statements and applications will be filed in accordance with the Bankruptcy Code, the Bankruptcy Rules, the Local Rules, and the Interim Compensation Order.

Notice

10. Notice of this Second Monthly Fee Statement has been or will be provided by overnight delivery to:

FOMB:

Financial Oversight and Management Board
40 Washington Square South
Office 314A
New York, NY 10012
Attn: Professor Arthur J. Gonzalez
FOMB Board Member

Co-Counsel for FOMB:

Proskauer Rose LLP
Eleven Times Square
New York, NY 10036
Attn: Martin J. Bienenstock, Esq.
Ehud Barak, Esq.

and
Proskauer Rose LLP
70 West Madison Street, Chicago, IL 60602
Attn: Paul V. Possinger, Esq.

Co-Counsel for FOMB:

O'Neill & Borges LLC
250 Muñoz Rivera Ave.
Suite 800
San Juan, PR 00918
Attn: Hermann D. Bauer, Esq.

Counsel for AAFAF:

O'Melveny & Myers LLP
Times Square Tower, 7 Times Square
New York, NY 10036
Attn: John J. Rapisardi, Esq.
Suzanne Uhland, Esq.
Diana M. Perez, Esq.

Office of United States Trustee:

Office of the United States Trustee for the District of Puerto Rico
Edificio Ochoa, 500 Tanca Street, Suite 301
San Juan, PR 00901
(In re: Commonwealth of Puerto Rico)

Co-Counsel for the Official Committee of Unsecured Creditors:

Paul Hastings LLP
200 Park Avenue
New York, NY 10166
Attn: Luc. A. Despina, Esq.
Andrew V. Tenzer, Esq.
Michael E. Comerford, Esq.
G. Alexander Bongartz, Esq.

and
Casillas, Santiago & Torres, LLC (Proposed)
El Caribe Office Building
53 Palmeras Street, Ste. 1601
San Juan, Puerto Rico 00901-2419
Attn: Juan J. Casillas Ayala, Esq.
Diana M. Batlle-Barasorda, Esq.
Alberto J. E. Añeses Negrón, Esq.
Ericka C. Montull-Novoa, Esq.

Co-Counsel for the Official Committee of Retired Employees:

Jenner & Block LLP

919 Third Ave.
New York, NY 1022-3908
Attn.: Robert Gordon, Esq.
Richard Levin, Esq.
and
Bennazar, Garcia & Millian, C.S.P.
Edificio Union Plaza, PH-A Piso 18
Avenida Ponce de Leon #416
Hato Rey, San Juan
Puerto Rico 00918
Attn.: A.J. Bennazar- Zequeira, Esq.

Fee Examiner:

Brady Williamson
One East Main Street, Suite 500
Madison, WI 53703-3300

WHEREFORE, McKinsey respectfully requests payment by the Debtors of \$1,332,000.00,
representing 90% of its fees incurred during the Fee Period and requested herein.

Dated: DATE
 Washington DC

McKinsey & Company, Inc. Washington DC

s/Tyler Duvall
Tyler Duvall
Partner
McKinsey & Company, Inc. Washington DC
1200 19th St NW #1000
Washington, DC 20036
Telephone: (202) 662-3100
Email: Tyler_Duvall@Mckinsey.com

Strategic Consultant to the Debtors

EXHIBIT A

Certification of McKinsey Partner Tyler Duvall

UNITED STATES DISTRICT COURT
DISTRICT OF PUERTO RICO

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In re:

PROMESA

Title III

THE FINANCIAL OVERSIGHT AND
MANAGEMENT BOARD FOR PUERTO RICO,

as representative of

No. 17 BK 3283-LTS

THE COMMONWEALTH OF PUERTO RICO, *et al.* (Jointly Administered)

Debtors.

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CERTIFICATION OF TYLER DUVALL

I, Tyler Duvall, hereby declare the following under penalty of perjury:

1. I am one of the McKinsey Partners providing consulting services related to the above-captioned Title III case.
2. I have personally performed many of the professional services rendered by McKinsey as strategic consultant to the Debtors and am familiar with all other work performed on behalf of the Debtors by the Partners, Associates, and other persons in the Firm.
3. The facts set forth in the foregoing Second Monthly Fee Statement are true and correct to the best of my knowledge, information, and belief.
4. I have reviewed the Interim Compensation Order and believe that McKinsey's Second Monthly Fee Statement complies therewith.

Pursuant to 28 U.S.C. §1746, I declare under penalty of perjury that the foregoing is true and correct.

Dated: January 16, 2018
Washington, DC

s/Tyler Duvall

Tyler Duvall
Partner
McKinsey & Company, Inc. Washington DC

EXHIBIT B

Consulting Agreement

PROPRIETARY and CONFIDENTIAL

CONSULTING AGREEMENT

McKinsey & Company, Inc. Washington D.C. ("McKinsey") and The Financial Oversight and Management Board for Puerto Rico (the "Board" or the "Client") hereby enter into the following terms effective July 3, 2017 in connection with consulting services that McKinsey provides to Client for Strategic Consulting support related to the Title III Litigation(the "Services").

1. SERVICES. The working arrangements, including scope of the Services and Deliverables (as defined below) will be described in each mutually-executed Scope of Work, attached hereto as individual Attachments and incorporated herein, and cannot be materially amended without mutual agreement of the Parties. In order to be able to complete the Services within the agreed timeframe and budget and to fulfill its responsibilities on a timely basis, McKinsey will rely on the Client's timely cooperation, including the Client and the Government of Puerto Rico's making available relevant data, information and personnel, performing any tasks or responsibilities assigned to the Client or the Government of Puerto Rico and notifying McKinsey of any issues or concerns the Client may have relating to the Services. The Client is solely responsible for ensuring that the Government of Puerto Rico cooperates with responding to requests for purposes of the Services. The parties will meet at mutually agreed times to discuss the progress of the Services and to exchange feedback. During the course of the Services, priorities may shift or unexpected events may occur which may necessitate changes to the Services. In this event, the parties will jointly discuss the anticipated impact on the Services and agree on any appropriate adjustments, including to the scope of work, timeframe and budget.

2. COMPENSATION. The Client shall compensate McKinsey on a Firm Fixed Price basis in connection with the Services, as set forth in the Attachments. Any payments made by the Board to McKinsey hereunder are expressed net of any deductions or withholdings that may be applicable in respect of taxes, duties or levies and the Client will pay those amounts to McKinsey, in cleared funds. The parties agree that McKinsey is solely responsible for any applicable withholding and payment of taxes with respect to McKinsey Personnel as required by law. Neither party undertakes, pursuant to his Agreement or otherwise, to perform or discharge any liability or obligation of the other party, whether regulatory or contractual, or to assume any responsibility whatsoever for the conduct of the business or operations of the other party. Consistent with the public purpose of the Client's mandate, this Agreement will be made publicly available subject to Section 5 below. McKinsey will invoice the Client for Deliverables in connection with the Services monthly or as otherwise set forth in the applicable Proposal. Except for Services provided under retainer, all invoices are to be paid in accordance with the court order setting procedures for interim compensation and reimbursement of professionals.

3. CONFIDENTIALITY. Subject to applicable public disclosure laws and the disclosure procedures established by Client that do not otherwise conflict with terms in this agreement, each Party agrees to keep confidential any confidential information furnished by either Party in connection with the Services ("Confidential Information"); provided, however, that the Client may disclose Confidential Information from McKinsey as necessary or desirable to carry out its statutory duties. The Client agrees to provide McKinsey prior notice of its intent to disclose Confidential Information from McKinsey. Without the Client's explicit consent, McKinsey will disclose Confidential Information only to its employees, agents and contractors who have a need to know and are bound to keep it confidential and will use Confidential Information only for purposes of performing the Services. Confidential Information shall be all information other than information that is (i) or becomes publicly available other than as a result of a breach of this agreement, (ii) already known to the Receiving Party, (iii) independently acquired or developed by the Receiving Party without violating any of its obligations under this agreement, or (iv) is legally required to be disclosed. All documents supplied by the Receiving Party Client in connection with the services hereunder will, upon written request, be returned by the Receiving Party to the Disclosing Party or destroyed, provided that the Receiving Party may retain a copy for archival purposes. In performing the Services, McKinsey will use and rely primarily on the Confidential Information and on information available from public sources without having independently verified the same and does not assume responsibility for the accuracy or completeness of the Confidential Information or such other publicly available information and Section 5 herein.

4. INTELLECTUAL PROPERTY. Upon payment in full of McKinsey's Fees associated with the relevant Services, the Client will own all reports, financial models and other deliverables prepared for and furnished to the Client by McKinsey in connection with the Services (the "Deliverables"), save that McKinsey retains ownership of all concepts, know-how, tools, frameworks, models, and industry perspectives developed or enhanced outside of or in connection with the Services (the "McKinsey Tools"), it being understood that none of the McKinsey Tools will contain the Client's

Confidential Information. To the extent the Deliverables include any McKinsey Tools, McKinsey hereby grants the Client a non-exclusive, non-transferable, non-sublicenseable, worldwide, royalty-free license to use and copy the McKinsey Tools solely as part of the Deliverables and subject to the limitations herein on disclosure of McKinsey materials and publicity.

5. DISCLOSURE OF MCKINSEY MATERIALS; PUBLICITY. McKinsey's work for the Client is confidential and for the Client's internal use only; provided, however, the Client may disclose such work to the extent such disclosure is necessary or desirable to carrying out the Client's statutory duties. The Client agrees that it will not disclose McKinsey's name in relation to any disclosure of work hereunder without McKinsey's consent. McKinsey will not disclose the Deliverables to any third parties (including any non-voting Board members) without the Client's prior written permission. McKinsey further agrees not to use the Client's name in any communication with any third party without the other party's prior written permission, including in press releases or other public announcements. If the Client receives a public records request for Deliverables or other documents containing McKinsey information, the Client will allow McKinsey the ability to review the documents prior to disclosure to advise if the documents contain information subject to an exception or exemption to the relevant public records law.

6. SERVING COMPETITORS. It is McKinsey's long-standing policy to serve competing clients and clients with potentially conflicting interests as well as counter-parties in merger, acquisition and alliance opportunities, and to do so without compromising McKinsey's professional responsibility to maintain the confidentiality of client information. Consistent with such practice and McKinsey's confidentiality obligations to its other clients, McKinsey is not able to advise or consult with the Client about McKinsey's serving the Client's competitors or other parties. To avoid situations of potential conflict, McKinsey will not, for a period of one year following an engagement for the Client, assign any consultant who receives Confidential Information in connection with such engagement to a competitively sensitive project, including a directly-conflicting engagement with the Government of Puerto Rico. Notwithstanding the foregoing, the Client understands and agrees that so long as McKinsey has appropriate procedures in place to mitigate any potential conflict, it may serve the Government of Puerto Rico on related matters.

7. INDEMNIFICATION.

(a) Deliverables produced hereunder are not intended as a substitute for financial, investment, legal, accounting or other professional advice, and McKinsey does not intend to supplant the Client or the Government of Puerto Rico's management or other decision-making bodies.

(b) The Client and the Government of Puerto Rico remain solely responsible for its decisions, actions, use of the Deliverables and compliance with applicable laws, rules and regulations. McKinsey agrees to indemnify and hold the Client harmless from and against all loss, liability, damage, cost, or expense (including reasonable attorney fees) ("Losses") to the extent those Losses are determined by a final, non-appealable order or arbitral award to have resulted from McKinsey's gross negligence or willful misconduct in the performance of the Services.

(c) The Client agrees to indemnify and hold McKinsey harmless from any Losses (including the costs of McKinsey's professional time) relating to the Services (including any Losses asserted by the Client, its agents or representatives, or third parties and any Losses sustained by McKinsey when participating in any legal, regulatory, or administrative proceeding relating to the Services), except to the extent those Losses are determined by a final, non-appealable order or arbitral award to have resulted from McKinsey's gross negligence or willful misconduct in the performance of the Services.

(d) The Client further indemnifies McKinsey, including any member, officer or employee thereof including but not limited to the Revitalization Coordination role, in any instance where it is a party, or is threatened to be made a party, to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, against judgments, fines, amounts paid in settlement and expenses (including attorneys' fees) actually and reasonably incurred by him or her in connection with such action, suit or proceeding, unless it acted with bad faith or engaged in intentional misconduct and, with respect to any criminal action or proceeding, unless it knew or should have known the conduct was unlawful. The termination of any act, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that McKinsey (or any of its members, officers or employees) did not satisfy these standards.

Neither party will be liable for any lost profits or other indirect, consequential, incidental, punitive or special damages. In no event shall McKinsey's liability to the Client in connection with the Services relating to an engagement for the Client exceed the amount paid to McKinsey by the Client in connection with such engagement.

8. AUTHORITY OF THE BOARD. The Client represents and warrants it has the authority to enter into this Agreement for the Services. In the event that it is determined that the Client did not have authority to authorize all or part of this agreement, McKinsey may make the sole determination as to whether to terminate the Agreement according to Section 10 herein, or continue with those parts of the Services for which the Client does have authority. The Client agrees to indemnify and hold McKinsey harmless from any Losses (including the costs of McKinsey's professional time) resulting from a breach of this Section 8 and/or a misrepresentation by the Client of authority to act (including any Losses asserted by the Client, its agents or representatives, or third parties and any Losses sustained by McKinsey when participating in any legal, regulatory, or administrative proceeding relating to the Services).


9. CONFLICTS OF INTEREST. The Client agrees that performance of Services hereunder shall not conflict McKinsey from serving the Government of Puerto Rico or any stakeholders to the work, subject to the restrictions in Section 6 – "Serving Competitors."


10. TERM AND TERMINATION. This agreement takes effect on the date the Services commenced and shall continue until terminated in accordance with its terms. Either party may terminate the Services at any time effective upon 30 days written notice to the other. In the event of any termination, the Client will pay McKinsey for the work completed up to the effective date of termination.

11. MISCELLANEOUS. This agreement and the Proposals constitute the entire agreement between the parties, and there are no prior or contemporaneous oral or written representations, understandings or agreements relating to this subject matter that are not fully expressed herein or therein. This agreement and the Proposals shall be governed by and construed in accordance with the laws of the State of New York without regard to conflicts of law principles and shall inure to the benefit of and be binding on the successors and assigns of the Client and McKinsey. The following Sections shall survive the completion or any termination of the Services: 3 (Confidentiality), 4 (Intellectual Property), 5 (Disclosure of McKinsey Materials; Publicity), 6 (Serving Competitors), 7 (Indemnification), 8 (Term and Termination) and 9 (Miscellaneous) and any other provision which by law or by its nature should survive. Neither party may assign its rights or obligations under this agreement to any person or entity without the written consent of the other party, not to be unreasonably withheld, provided, however, that either party may assign its rights and obligations under this agreement to its affiliates upon reasonable written notice to the other party but without the written consent of the other party. Assignment shall not relieve either party of its obligations hereunder. McKinsey is an independent contractor and not the Client's agent or fiduciary. Notwithstanding any course of dealings of the parties at any time or any statement to the contrary contained therein, no purchase order, invoice or other similar document issued by a party shall be construed to modify the terms of this agreement. Rights and remedies provided in this agreement are cumulative and not exclusive of any right or remedy provided at law or in equity.

The Financial Oversight and Management Board for Puerto Rico
(Client)

McKinsey & Company, Inc., Washington D.C.


Name: Natalie A. Jaresko
Title: Executive Director
Date: Sept. 12, 2017


Name: Tyler Duvall
Title: Partner
Date: September 8, 2017

ATTACHMENT 1
Scope of Work
For
Commonwealth Title III Support

Services:

In regards to support for the Commonwealth Title III proceedings to the Board to include:

Activities:

- Participation in and coordination of cross advisor meetings (Board, Commonwealth and/or Stakeholders) regarding Title III related matters
- Preparation of materials necessary for supporting Fiscal Plan litigation, which could include:
 - Assemble fact base regarding process for creation, stress testing and certification of the fiscal plan
 - Assemble fact base regarding additional analyses created for the FOMB with respect to evaluating/stress testing the FY18 fiscal plan
 - Collect and summarize key input sources and supporting analysis for key fiscal plan assumptions
 - Assemble fact base regarding process and supporting analysis used to identify and evaluate key measures proposed and finally included in the fiscal plan
 - Prepare and/or evaluate alternative fiscal plan scenario analyses in support of requested alternative contexts
 - Prepare analyses in support of litigation activities
- As needed, ad-hoc analyses and/or responses to questions regarding litigation or potential litigation relating to the Fiscal Plan or other Commonwealth Title III matters
- As applicable to McKinsey's Services regarding FOMB fiscal plans and work relative to the Commonwealth and its instrumentalities, it is the expectation of McKinsey and the Board that as part of the Services McKinsey shall:
 - Provide expert testimony (at most 2 per quarter)
 - Participate in and/or assist the Board with mediation sessions and Board meetings or conferences, which may include presentations
 - Provide support at related stakeholder interactions, which may include presentations

Deliverable:

- Monthly report regarding liquidity performance and strategic choices on liquidity related to Title III proceedings and/or ad hoc analysis performed within that month.

Support Structure and Cost:

- The cost for this work will be \$740,000 per month and will continue so long as the Commonwealth Title III process continues or the Board no longer believes the support is necessary.
- If additional deliverables are required by McKinsey beyond this core support this contract will be amended to reflect any required support.

Payment Schedule

McKinsey will submit a Monthly Fee Statement for the deliverables provided on or before the 25th day of each calendar month.

ATTACHMENT 2
Scope of Work
for
Title III Support for PREPA

Services:

In regards to work specifically supporting the Title III proceedings for the Board with relation to PREPA, McKinsey will support the Board in the following ways:

1. Coordinate and provide analysis related to development of the transformation plan and plan of arrangement for PREPA

Activities:

The core activities include working directly with the Board, the Executive Director and Board Staff in the following areas (as well as ad hoc and as needed support):

- Establishment of the PREPA working group for Title III, including working group protocol, governance, cadence, targets and coordination
- Lead PREPA working group for Title III, including leading meetings, developing core materials, workplans, agendas and coordination with PREPA, AAFAF and its experts and advisors
- Develop transformation plan for PREPA for Title III which includes but is not limited to:
 - Operational stabilization plans focused on near and immediate term actions to maintain sustainable operations and launch capex programs with specific implementation plans, resourcing and costing supporting their delivery
 - Debt restructuring terms and plans, agreed with creditors to the extent possible
 - Detailed privatization/corporatization plans supported by financial models and market engagement
 - Detailed action plans to implement all measures identified in the Fiscal Plans with additional measures to achieve Board targets
 - Governance and management plans that will enable delivery of actions
 - Stakeholder management plans and demonstrable success in engaging key stakeholders such as regulators
 - Macro-resource planning when required (e.g. updated IRP for PREPA)
 - Clear assessments of economic and social impacts on the people of Puerto Rico
 - Clear timelines for delivery of the plan
- Coordinate development of and approval by the Board of other submissions related to the Title III proceedings, including Plans of Arrangements, financial disclosure, implementation plans, contract assumption and rejection
- Work with Board management and Board PREPA subcommittee to provide updates and take guidance on PREPA transformation and Title III
- Monitor implementation of all aspects of the PREPA transformation plans and Title III plans
- Escalating deviations from plans and defining solutions for compliance

- Conduct limited market engagement as necessary to identify potential privatization options for PREPA
- Lead development of an integrated resource plan for PREPA to support the Transformation Plan in coordination with PREC and PREPA
- As applicable to McKinsey's Services regarding FOMB fiscal plans and work relative to the Commonwealth and its instrumentalities, it is the expectation of McKinsey and the Board that as part of the Services McKinsey shall:
 - Provide expert testimony (at most 2 per quarter)
 - Participate in and/or assist the Board with mediation sessions and Board meetings or conferences, which may include presentations
 - Provide support at related stakeholder interactions, which may include presentations

Deliverables:

A monthly report describing progress against transformation objectives, as well as specific supporting analyses, including:

- Detailed action plans, including e.g. structural solutions, governance, likely economic impacts and operational stabilization
- Synopsis of market perspectives related to different potential options
- Integrated resource plan

Support Structure and Cost:

- The cost for this work will be \$740,000 per month and will continue so long as the Title III process continues or the Board no longer believes the support is necessary.
- If additional deliverables are required by McKinsey beyond this core support this contract will be amended to reflect any required support.

Payment Schedule

McKinsey will submit a Monthly Fee Statement for the deliverables provided on or before the 25th day of each calendar month.

ATTACHMENT 2
Scope of Work
for
Title III Support for HTA

Services:

In regards to work specifically supporting the Title III proceedings for the Board with relation to HTA, McKinsey will support the Board in the following ways:

Coordinate and provide analysis related to development of the transformation plan and plan of arrangement for HTA

Activities:

The core activities include working directly with the Board, the Executive Director and Board Staff in the following areas (as well as ad hoc and as needed support):

- Establishment of the HTA working group for Title III, including working group protocol, governance, cadence, targets and coordination
- Lead HTA working group for Title III, including leading meetings, developing core materials, workplans, agendas and coordination with HTA, AAFAF and its experts and advisors
- Develop transformation plan for HTA for Title III which includes but is not limited to:
 - Operational stabilization plans focused on near and immediate term actions to maintain sustainable operations and launch capex programs with specific implementation plans, resourcing and costing supporting their delivery
 - Debt restructuring terms and plans, agreed with creditors to the extent possible
 - Detailed privatization/corporatization plans supported by financial models and market engagement
 - Action plans to implement all measures identified in the Fiscal Plans with additional measures to achieve Board targets
 - Governance and management plans that will enable delivery of actions
 - Stakeholder management plans and demonstrable success in engaging key stakeholders such as regulators
 - Macro-resource planning when required
 - Clear assessments of economic and social impacts on the people of Puerto Rico
 - Clear timelines for delivery of the plan
- Coordinate development of and approval by the Board of other submissions related to the Title III proceedings, including Plans of Arrangements, financial disclosure, implementation plans, contract assumption and rejection
- Work with Board management and Board HTA subcommittee to provide updates and take guidance on HTA transformation and Title III
- Monitor implementation of all aspects of the HTA transformation plans and Title III plans
- Escalating deviations from plans and defining solutions for compliance
- Support litigation related to the HTA proceedings, which has commenced

- As applicable to McKinsey's Services regarding FOMB fiscal plans and work relative to the Commonwealth and its instrumentalities, it is the expectation of McKinsey and the Board that as part of the Services McKinsey shall:
 - Provide expert testimony (at most 2 per quarter)
 - Participate in and/or assist the Board with mediation sessions and Board meetings or conferences, which may include presentations
 - Provide support at related stakeholder interactions, which may include presentations

Deliverables:

A monthly report describing progress against transformation objectives, as well as specific supporting analyses, including:

- Detailed action plans, including e.g. structural solutions, governance, likely economic impacts and operational stabilization
- Synopsis of market perspectives related to different potential options
- Integrated resource plan

Support Structure and Cost:

- The cost for this work will be \$720,000 per month and will continue so long as the HTA Title III process continues or the Board no longer believes the support is necessary.
- If additional deliverables are required by McKinsey beyond this core support, this contract will be amended to reflect any required support.

Payment Schedule

McKinsey will submit a Monthly Fee Statement for the deliverables provided on or before the 25th day of each calendar month.

EXHIBIT C

PREPA TITLE III Workstream

Summary of Work

During the month of October, the PREPA Title III Team developed an initial view of PREPA post-hurricane, from a financial, operational, and strategic perspective. From a financial perspective, we estimated the operational funding deficit and reconstruction costs for PREPA resulting from the hurricane, for the seven quarters following the hurricane, for the purposes of a federal funding and loan request. From an operational perspective, we developed the scope, responsibility, and initial roadmap for a PREPA Chief Transformation Officer appointed by the FOMB (note that this appointment was later rejected by the court). Finally, from a strategic perspective, we developed an initial view of the options and costs to rebuild the power grid in Puerto Rico to be resilient for future storms, as well as finalized a draft of the pre-hurricane Transformation Plan.

Detailed Activities by Deliverable

- Developed and updated complete pre-hurricane Transformation Plan draft for federal and other stakeholder briefings on PREPA pre-hurricane state
 - government-drafted materials with content developed on privatization and future generation mix
 - Finalized recommendations for Transformation Plan next steps
 - Developed summary briefing materials
- Estimated PREPA operational funding deficit and reconstruction costs for FY Q2 2018 and through FY Q4 2019 for initial federal funding request
 - Worked in collaboration with PREPA advisors to estimate post-hurricane changes in revenue and operating costs
 - Developed top-down estimate of reconstruction costs based on initial damage report and benchmarked unit costs for system
- Drafted PREPA Interim Manager scope and responsibilities
- Provided Board update on PREPA during PREPA subcommittee meeting including overview of pre-Maria transformation planning efforts; estimate of damage and repair costs; outline of key Board decisions on Fiscal Planning, interim manager appointment, privatization, and short and long-term reconstruction; and immediate next steps for Board
- Prepared Board-appointed PREPA Chief Transformation Officer for role
 - Outlined organizational structure for CTO support
 - Developed Day 1, week 1, month 1 action plan for CTO
 - Developed avenues to bring utility expertise to CTO role

- Developed initial view of options to re-build a resilient power grid in Puerto Rico
 - Estimated costs and benefits of grid hardening in Puerto Rico
 - Estimated costs and benefits of redesigning the grid to be more resilient (e.g. microgrid locations, generation closer to load centers)
 - Participated in meeting with industry and academic experts on building a resilient power grid in Puerto Rico

Team Detail and Contributions

The McKinsey team was led by Partners (Tyler Duvall, Thomas Dohrmann, Bertil Chappuis, Matt Rogers and Kevin Carmody) and an Expert Associate Partner (Aaron Bielenberg). This leadership team structured the content, provided quality control and stakeholder management as Additional Associate Partners (Amy Wagner and Scott Perl) provided expert content given their extensive experience in the utility sector. The Working team consisted of a day-to-day Engagement Manager and two full-time Associates and Business Analysts.

■ **Bertil Chappuis (Senior Partner):**

- Weekly conversations with Board members, Executive Director and staff to evolve PREPA Title III strategy and approach
- Weekly Executive Board and PREPA subcommittee meetings to review progress and advise on key PREPA decisions
- Weekly conversations with McKinsey leadership, clients and team members to address key emerging issues
- Guided re-scoping of PREPA transformation plan work in aftermath of Hurricane Maria to address catastrophic damage to PREPA assets

■ **Thomas Dohrmann (Senior Partner)**

- Participated in discussions with Executive Director and Board to review progress and advise on key decisions
- Provided expertise related to FEMA and HUD disaster recovery funding

■ **Matt Rogers (Senior Partner)**

- Provided expert support on options to rebuild the power sector in Puerto Rico following hurricane Maria to provide perspective on PREPA Transformation Plan revisions for Title III following hurricane Maria
- Provided overall quality control on team content and stakeholder management with Board, FOMB staff and co-advisors

■ **Tyler Duvall (Partner)**

- Engaged in regular problem-solving sessions with team to guide work and address cross team issues
- Helped brief Board staff and PREPA subcommittee on findings, issues and initiatives
- Reviewed and provided input for all team deliverables (in particular, Board update, interim manager scope)
- Led regular conversations with McKinsey leadership, clients and team members to address key emerging issues
- Provided expertise related to potential Federal support

■ **Aaron Bielenberg (Associate Partner)**

- Weekly conversations with Board members, Executive Director and staff to evolve PREPA Title III strategy and approach
- Twice-weekly problem-solving sessions with team to guide work and address cross team issues
- Guided development of 1-quarter, 7-quarter, and 5-year liquidity models for PREPA following hurricane Maria to assess impact on PREPA liquidity and provide input into Commonwealth liquidity analysis
- Guided development of 7-quarter relief funding gap estimate for PREPA and the Commonwealth following hurricane Maria to assess impact on PREPA and Commonwealth liquidity
- Guided Board update on PREPA, including overview of pre-Maria transformation planning efforts, estimate of damage and repair costs; outline of key Board decisions on Fiscal Planning, interim manager appointment, privatization, and short and long-term reconstruction; and immediate next steps for Board
- Guided development of interim manager / CTO scope, responsibilities, and preparation

■ **Amy Wagner (Associate Partner)**

- Provided expert support on options to rebuild the power sector in Puerto Rico following hurricane Maria to provide perspective on PREPA Transformation Plan revisions for Title III following hurricane Maria

■ **Scott Perl (Associate Partner)**

- Provided expert input on utility operations relevant to the interim manager / CTO scope and responsibilities

■ **Sarah Brody (Engagement Manager)**

- Led development of 1-quarter, 7-quarter, and 5-year liquidity models for PREPA following hurricane Maria to assess impact on PREPA liquidity and provide input into Commonwealth liquidity analysis

- Led development of 7-quarter relief funding gap estimate for PREPA and the Commonwealth following hurricane Maria to assess impact on PREPA and Commonwealth liquidity
- Developed updated draft of Transformation Plan excluding post-Maria changes
- Prepared Board update on PREPA, including overview of pre-Maria transformation planning efforts, estimate of damage and repair costs; outline of key Board decisions on Fiscal Planning, interim manager appointment, privatization, and short and long-term reconstruction; and immediate next steps for Board
- Developed draft of scope and responsibilities for PREPA Interim Manager

■ **Alex Brihac (Associate)**

- Led development of 7-quarter relief funding gap estimate for PREPA and the Commonwealth following hurricane Maria to assess impact on PREPA and Commonwealth liquidity
- Prepared Board update on PREPA, including overview of pre-Maria transformation planning efforts, estimate of damage and repair costs; outline of key Board decisions on Fiscal Planning, interim manager appointment, privatization, and short and long-term reconstruction; and immediate next steps for Board
- Developed initial perspective on options to rebuild the power sector in Puerto Rico following hurricane Maria to provide perspective on PREPA Transformation Plan revisions for Title III following hurricane Maria
- Developed draft of scope and responsibilities for PREPA Interim Manager

■ **Maria Bernier (Business Analyst)**

- Developed initial perspective on options to rebuild the power sector in Puerto Rico following hurricane Maria to provide perspective on PREPA Transformation Plan revisions for Title III following hurricane Maria
- Developed updated draft of Transformation Plan excluding post-Maria changes
- Prepared Board update on PREPA, including overview of pre-Maria transformation planning efforts, estimate of damage and repair costs; outline of key Board decisions on Fiscal Planning, interim manager appointment, privatization, and short and long-term reconstruction; and immediate next steps for Board

Commonwealth Title III Workstream

Summary of Work

During the month of October, the Commonwealth Title III team drafted and engaged with the government and its advisors to refine a seven quarter liquidity need estimate for the government of Puerto Rico through Q4 FY 2019; coordinated the review of monthly reports produced by AAFAF relating to cash flow and disaster relief funding; assessed the PR government's estimates of cash balances; commenced planning for Creditor and Public Listening Sessions in November and December 2017; and refined the FOMB's internal financial projections related to the ongoing Fiscal Plan revision process.

The work consisted of three primary workstreams: (1) financial planning related to the revised Fiscal Plan (2) cash balance and cash flow analysis related to the PR government's post-Maria liquidity estimates (3) stakeholder engagement related to the FOMB's obligation to engage all relevant parties in an active, transparent manner and to respond to ongoing litigation and mediation.

The October work sets the stage for numerous creditor and public engagement sessions in Fall 2017, a more accurate understanding of the post-Maria cash flow trends of the Puerto Rico government, and a review of the upcoming Fiscal Plan revision in January 2018 and beyond.

Detailed Activities by Deliverable

- Presentations and documents for public listening sessions, creditor sessions and other stakeholder engagements
 - Commenced planning for Creditor Session, Creditor Economist Session and public Listening Session in November and December 2017
- Project management lead, including managing overall calendar
 - Participation in and coordination of cross advisor meetings regarding Title III matters
 - Drafted and revised Section 205 letters in conjunction with FOMB staff
 - Supported ongoing Fiscal Plan litigation process by collecting answers submitted in response to prior mediation and coordinating the posting of the responses to the FOMB's online data room
- Financial model(s) and analyses requested by the FOMB
 - Conducted research and preliminary analysis related to the revised Fiscal Plan that is being produced by the Puerto Rico government, including details relating to a baseline, fiscal and structure reform measures, macro factors and expense/revenue projections.
 - Developed high-level milestones and plan for submission of revised Fiscal Plan based on FOMB guidance

- Ad-hoc analyses and Board meeting support
 - Prepare ad-hoc analyses regarding possible updates to fiscal plan assumptions (macro assumptions, revenues and expenses)
 - Preparation for and attendance at the Public Board Meeting on October 31
- Report(s) regarding liquidity performance and strategic choices on liquidity related to Title III proceedings
 - Participated in several cross-advisor meetings to assess on-going liquidity performance and prepared various ad-hoc analyses
 - Prepared updated post-hurricane Commonwealth liquidity needs assessment to incorporate greater detail and refined assumptions for FOMB
 - Participated in discussions with US Treasury in support of FOMB/government analysis regarding short-term liquidity financing needs for Puerto Rico

Team Detail and Contributions

The McKinsey team was led by Partners (Bertil Chappuis, Thomas Dohrmann, Kevin Carmody and Tyler Duvall) and a Senior Vice President (Ojas Shah). The leadership team oversaw the team's work, provided quality control and led stakeholder management. An additional Associate Partner (Todd Wintner) provided expert content. The Working team consisted of a day-to-day Engagement Manager and two full-time Associates and Business Analysts and some occasional support from other team members as described below.

■ **Bertil Chappuis (Senior Partner)**

- Participated in weekly Executive Board calls to review progress and advise on key decisions (in particular, in response to Hurricane Maria aftermath)
- Review and input for all team deliverables (in particular, short term liquidity needs post hurricane, initial assessment of fiscal plan impacts including macro assumptions).
- Sourced various data sources to inform macro assumptions eg interviewees in local business community, Facebook data agreement etc.
- Participate in multiple individual discussions with outside stakeholders to understand and inform Board strategy and approach after the hurricane (eg NGOs, business owners, community leaders) on the situation on the ground

■ **Thomas Dohrmann (Senior Partner)**

- Participated in discussions with Executive Director and Board to review progress and advise on key decisions
- Supported team in problem solving related to updated baseline macro forecast and fiscal plan

- Reviewed presentations and team deliverables, including short term liquidity post hurricane

■ **Kevin Carmody (Senior Partner)**

- Participated in discussions related to development of financial projections and funding requirements for Puerto Rico
- Participated in advisor meetings and calls related to fiscal plan & projected liquidity requirements
- Reviewed FOMB presentation materials and supporting analyses

■ **Tyler Duvall (Partner)**

- Helped lead Board and FOMB team meetings
- Supported team in problem solving sessions related to updating fiscal plan assumptions and content
- Provided expertise related to Federal recovery funding and requirements
- Reviewed FOMB presentation materials and supporting analyses

■ **Ojas Shah (Senior Vice President)**

- Led discussions in Board and Executive Director calls regarding updates for CW Title III related matters and analyses
- Oversaw development of short-term/intermediate term financial projections and associated materials as requested by FOMB to assess the short-term funding requirements for Puerto Rico
- Led discussions with government and government advisors to prepare joint assessment of short-term liquidity needs for Commonwealth post hurricane Maria
- Coordinated and participated in cross advisor meetings (Board and Commonwealth) regarding Title III and Commonwealth Fiscal Plan/liquidity requirement matters
- Led FOMB and Executive Director calls to provide updates regarding Title III and Commonwealth Fiscal Plan/liquidity related matters and analyses
- Reviewed and provided inputs to materials for and attended public FOMB board meeting on October 31

■ **Todd Wintner (Associate Partner)**

- Directed team assessing fiscal measures contained in the March 13th Certified Fiscal Plan to reflect both magnitude of impact and feasibility of implementation of such measures post-hurricane
- Liaised with Government to incorporate updated data (e.g., healthcare population assumptions) and other inputs relevant to fiscal reform assessment and revisions

- Reviewed full certified March 13th Fiscal Plan revenue and expenditure build (business-as-usual baseline) to identify major areas of impact post-Hurricane (e.g., based on population changes / movements, infrastructure impacted, etc.)

■ **Alexey Sosnovskiy (Engagement Manager)**

- Coordinated feedback and revised post-hurricane liquidity needs assessment for the Commonwealth, including population trends, consumption and business activity, and disaster relief assumptions
- Coordinated collection and development of responses to additional creditor questions related to mediation sessions

■ **Elliott Neal (Engagement Manager)**

- Assessed magnitude of potential insurance payouts to government entities associated with Hurricane Irma/Maria recovery
- Oversaw development of short-term/intermediate term financial projections and associated materials as requested by FOMB to assess the short-term funding requirements for Puerto Rico
- Participated in discussions with government advisors regarding short-term liquidity needs analysis for the Commonwealth post Hurricane Maria
- Prepared materials and participated in Board and Executive Director calls to provide updates regarding Title III and Commonwealth Fiscal Plan/liquidity related matters and analyses

■ **Justin Reed (Senior Associate)**

- Supported update of Commonwealth liquidity need analysis to incorporate latest disaster recovery estimates and updated macro assumptions
- Developed analysis mapping appropriations to key expense line items in fiscal plan to assess total Commonwealth expenses and hurricane impacts
- Prepared analysis of fiscal plan data which segregated Commonwealth revenues and expenses by key agency
- Prepare ad-hoc analysis regarding possible updates to fiscal plan baseline assumptions (macro, revenue, and expenses)
- Participated in cross advisor calls and meetings to coordinate fiscal plan revision efforts with Government advisors

■ **Julien Truchon-Poliard (Associate)**

- Developed case studies of disaster recovery experience in Sierra Leone and Mexico
- Analyzed best practices in preventing fraud, waste and abuse in post-disaster fund disbursement
- Analyzed best practices in project funding from Millennium Challenge Corporation and lessons learned from New York post-Sandy Build It Back program

- Prepared materials for potential questions and answers related to Commonwealth liquidity position and other Title III related topics

■ **Zarif Jamil (Senior Business Analyst)**

- Coordinated preparation of responses to mediation questions from creditors assigned to FOMB advisors
- Supported the co-development of the Commonwealth's post-Maria liquidity funding request to US Treasury
- Supported the development of a milestone plan to revise the existing fiscal plan
- Coordinated planning for public Listening Session and Creditor Session in November 2017

EXHIBIT D

October 2017 Invoices

McKinsey&Company

The Financial Oversight and
Management Board for Puerto Rico
PO Box 195556
San Juan, Puerto Rico 00919-5556

ATTN: Promesa Assistant
accountspayable@promesa.gov

Invoice No: DCG-GPC012-4790

Consulting Agreement
Client for Strategic Consulting support related to
the Title III Litigation
Effective Agreement Date: July 3, 2017

Invoice Date: 12/22/2017

Net 30

FFP Payment Schedule

Monthly Fee for PREPA at \$740,000 per month

Invoice PoP: October 1, 2017 – October 31, 2017

Gross invoice amount for services performed outside Puerto Rico:	\$	710,400.00
Gross invoice amount for services performed in Puerto Rico:	\$	41,690.14
Subtotal	\$	752,090.14
Less withholding tax deducted at source	\$	(12,090.14)
Net Invoice Payable:	\$	740,000.00

Please wire transfer payment to:
McKinsey & Company, Inc.
Citibank N.A.
Bank Account Number: 30420698
Bank ABA Routing Number: 021000089

If remitting by check please send check to:
McKinsey & Company, Inc.
P.O. Box 7247-7255
Philadelphia, PA 19170-7255

Federal Tax ID#: 56-2405213

Please reference the invoice number and invoice date on your remittance advice.

For advice or questions on remittances, please contact Pamela Wertz 202-662-0060 or
Jordan Mandell 202-662-0938.

McKinsey&Company

The Financial Oversight and
Management Board for Puerto Rico
PO Box 195556
San Juan, Puerto Rico 00919-5556

ATTN: Promesa Assistant
accountspayable@promesa.gov

Invoice No: DCG-GPC013-4791

Consulting Agreement
Client for Strategic Consulting support related to
the Title III Litigation
Effective Agreement Date: July 3, 2017

Invoice Date: 12/22/2017

Net 30

FFP Payment Schedule

Monthly Fee for Commonwealth at \$740,000 per month

Invoice PoP: October 1, 2017 – October 31, 2017

Gross invoice amount for services performed outside Puerto Rico:	\$	710,400.00
Gross invoice amount for services performed in Puerto Rico:	\$	41,690.14
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Bank Account Number: 30420698
Bank ABA Routing Number: 021000089

If remitting by check please send check to:
McKinsey & Company, Inc.
P.O. Box 7247-7255
Philadelphia, PA 19170-7255

Federal Tax ID#: 56-2405213

Please reference the invoice number and invoice date on your remittance advice.

For advice or questions on remittances, please contact Pamela Wertz 202-662-0060 or
Jordan Mandell 202-662-0938.

UNITED STATES DISTRICT COURT
DISTRICT OF PUERTO RICO

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In re: PROMESA
Title III

THE FINANCIAL OVERSIGHT AND
MANAGEMENT BOARD FOR PUERTO RICO,

as representative of

Case No. 17-04780 (LTS)

PUERTO RICO ELECTRIC POWER
AUTHORITY ("PREPA"),

Debtor.¹

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**CONSOLIDATED THIRD MONTHLY FEE STATEMENT OF MCKINSEY &
COMPANY, INC. WASHINGTON D.C. FOR COMPENSATION FOR
SERVICES RENDERED TO THE FINANCIAL OVERSIGHT AND MANAGEMENT
BOARD FOR PUERTO RICO, AS REPRESENTATIVE OF DEBTOR, PUERTO RICO
ELECTRIC POWER AUTHORITY
FOR THE PERIOD NOVEMBER 1, 2017 THROUGH JANUARY 31, 2018**

Name of Professional: McKinsey & Company, Inc. Washington D.C.
("McKinsey")

Authorized to Provide Services to: The Financial Oversight and Management Board for
Puerto Rico, as Representative of Puerto Rico
Electric Power Authority, Debtor
Pursuant to PROMESA Section 315(b)

Period for which compensation
and reimbursement is sought: November 1, 2017 – January 31, 2018

Amount of compensation sought
as actual, reasonable and necessary: **\$2,220,000.00**

Amount of expense reimbursement sought
sought as actual, reasonable and necessary²: **\$0.00**

Type of Fee Statement: Consolidated Third Monthly Fee Statement:
Title III Support for PREPA³

¹ The last four (4) digits of PREPA's federal tax identification number are 3747.

² McKinsey provides services on a fixed fee basis, and as such, seeks no reimbursement of expenses.

³ Notice of this Consolidated Third Monthly Fee Statement (as defined herein) has been served in accordance with the Interim Compensation Order (as defined herein) and objections to payment of the amounts described in this Monthly Fee Statement shall be addressed in accordance with the Interim Compensation Order.

1. Pursuant to the *First Amended Order Setting Procedures for Interim Compensation and Reimbursement of Expenses of Professionals*, entered on November 8, 2017 [Docket Number 1715] (the “Interim Compensation Order”), the applicable provisions of the United States Code (the “Bankruptcy Code”), the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”), and the Local Bankruptcy Rules for the United States Bankruptcy Court for the District of Puerto Rico (the “Local Rules”), McKinsey & Company, Inc. Washington DC (“McKinsey”), strategic consultants to The Financial Oversight And Management Board For Puerto Rico, as representative of Debtor, Puerto Rico Electric Power Authority (“PREPA”, the “Debtor” or the “Board”), hereby serves this Consolidated Third Monthly Fee Statement for the allowance of compensation for reasonable and necessary strategic consulting services and support that McKinsey provided during the months of November 2017, December 2017 and January 2018 (the “Fee Period”) pursuant to the “Title III Support for PREPA” Scope of Work of the consulting agreement entered into between McKinsey and the Board on or about and July 3, 2017 for consulting services in support of the Title III litigation (the “Consulting Agreement”) and attached hereto as Exhibit A. Pursuant to the Bankruptcy Code, the Bankruptcy Rules and the Local Rules, a Certification of Tyler Duvall, a Partner of McKinsey, regarding compliance with the statutory and legal authority cited above is attached hereto as Exhibit B.
2. By this Consolidated Third Monthly Fee Statement: Title III Support for PREPA, McKinsey seeks allowance of compensation for services rendered under the Consulting Agreement during the Fee Period in the amount of \$1,998,000.00 (which equals 90% of the compensation sought herein, in accordance with Section 2.c of the Interim Compensation Order).

Summary of Services Rendered During the Fee Period

3. During the Fee Period, McKinsey provided a focused range of professional services as requested by the Board and reflected in the Consulting Agreement Scope of Work for Title III Support for PREPA.³
4. Included at Exhibit C is a detailed summary of McKinsey's scope of services, deliverables and team member activities performed pursuant to the Title III Support for PREPA Scope of Work during the Fee Period.
5. Included at Exhibit D is a copy of McKinsey's monthly invoices⁴ for fees incurred during the Fee Period pursuant to the Consulting Agreement in support of the Title III Support for PREPA Scope of Work. McKinsey's fees – as reflected in the invoices – are based on the usual and customary fees McKinsey charges to clients and are commensurate with the services performed. As reflected in Exhibit D, McKinsey incurred \$2,220,000.00 in fees during the Fee Period, and now seeks reimbursement for 90% of such fees (\$1,998,000.00).
6. The efforts expended by McKinsey during the Fee Period have been commensurate with the size and complexity of these cases. In rendering these services, McKinsey has made every effort to maximize the benefit to the Debtor, to work efficiently with the other professionals employed in these cases, and to leverage staff appropriately in order to minimize duplication of effort.

³ McKinsey is simultaneously serving separate consolidated monthly fee statements for services rendered pursuant to the other two (2) Scopes of Work under the Consulting Agreement.

⁴ The invoice included at Exhibit D reflects Puerto Rico withholding tax (29%), which is applicable to payments for services performed in Puerto Rico. In accordance with the terms of the Consulting Agreement, McKinsey has calculated the proportion of fees attributable to work performed in Puerto Rico and determined the applicable tax to be withheld by the client for payment to the Puerto Rico tax authorities. The net amount reflected on the invoice to be collected by McKinsey is consistent with the terms of the Consulting Agreement.

7. McKinsey respectfully submits that the amounts applied for herein for professional services rendered on behalf of the Board in these cases to date are fair and reasonable given: (a) the time expended; (b) the nature and extent of the services performed at the time at which such services were rendered; and (c) the value of such services.

Representations

8. While every effort has been made to include all fees incurred by McKinsey during the Fee Period, some fees may not be included in this Consolidated Third Monthly Fee Statement: Title III Support for PREPA due to certain unavoidable delays caused by accounting and processing during the Fee Period. McKinsey reserves the right to make further application(s) for allowance of such fees not included herein. Subsequent fee statements and applications will be filed in accordance with the Bankruptcy Code, the Bankruptcy Rules, the Local Rules, and the Interim Compensation Order.

Notice

9. Notice of this Consolidated Third Monthly Fee Statement: Title III Support for PREPA has been or will be provided by overnight delivery to:

FOMB:

Financial Oversight and Management Board
40 Washington Square South
Office 314A
New York, NY 10012
Attn: Professor Arthur J. Gonzalez
FOMB Board Member

Co-Counsel for FOMB:

Proskauer Rose LLP
Eleven Times Square
New York, NY 10036

Attn: Martin J. Bienenstock, Esq.
Ehud Barak, Esq.
and
Proskauer Rose LLP
70 West Madison Street, Chicago, IL 60602
Attn: Paul V. Possinger, Esq.

Co-Counsel for FOMB:

O'Neill & Borges LLC
250 Muñoz Rivera Ave.
Suite 800
San Juan, PR 00918
Attn: Hermann D. Bauer, Esq.

Counsel for AAFAF:

O'Melveny & Myers LLP
Times Square Tower, 7 Times Square
New York, NY 10036
Attn: John J. Rapisardi, Esq.
Suzanne Uhland, Esq.
Diana M. Perez, Esq.

Office of United States Trustee:

Office of the United States Trustee for the District of Puerto Rico
Edificio Ochoa, 500 Tanca Street, Suite 301
San Juan, PR 00901
(In re: Commonwealth of Puerto Rico)

Co-Counsel for the Official Committee of Unsecured Creditors:

Paul Hastings LLP
200 Park Avenue
New York, NY 10166
Attn: Luc. A. Despins, Esq.
Andrew V. Tenzer, Esq.
Michael E. Comerford, Esq.
G. Alexander Bongartz, Esq.
and
Casillas, Santiago & Torres, LLC (Proposed)
El Caribe Office Building
53 Palmeras Street, Ste. 1601
San Juan, Puerto Rico 00901-2419
Attn: Juan J. Casillas Ayala, Esq.
Diana M. Batlle-Barasorda, Esq.
Alberto J. E. Añeses Negrón, Esq.
Ericka C. Montull-Novoa, Esq.

Co-Counsel for the Official Committee of Retired Employees:

Jenner & Block LLP
919 Third Ave.
New York, NY 1022-3908
Attn.: Robert Gordon, Esq.
Richard Levin, Esq.
and
Bennazar, Garcia & Millian, C.S.P.
Edificio Union Plaza, PH-A Piso 18
Avenida Ponce de Leon #416
Hato Rey, San Juan
Puerto Rico 00918
Attn.: A.J. Bennazar- Zequeira, Esq.

Fee Examiner:

Brady Williamson
One East Main Street, Suite 500
Madison, WI 53703-3300

WHEREFORE, McKinsey respectfully requests payment by the Debtor of \$1,998,000.00,
representing 90% of its fees incurred during the Fee Period and requested herein.

Dated: March 16, 2018
Washington DC

McKinsey & Company, Inc. Washington DC

s/Tyler Duvall

Tyler Duvall
Partner
McKinsey & Company, Inc. Washington DC
1200 19th St NW #1000
Washington, DC 20036
Telephone: (202) 662-3100
Email: Tyler_Duvall@Mckinsey.com

Strategic Consultant to the Debtor

EXHIBIT A

Consulting Agreement

PROPRIETARY and CONFIDENTIAL

CONSULTING AGREEMENT

McKinsey & Company, Inc. Washington D.C. ("McKinsey") and The Financial Oversight and Management Board for Puerto Rico (the "Board" or the "Client") hereby enter into the following terms effective July 3, 2017 in connection with consulting services that McKinsey provides to Client for Strategic Consulting support related to the Title III Litigation(the "Services").

1. SERVICES. The working arrangements, including scope of the Services and Deliverables (as defined below) will be described in each mutually-executed Scope of Work, attached hereto as individual Attachments and incorporated herein, and cannot be materially amended without mutual agreement of the Parties. In order to be able to complete the Services within the agreed timeframe and budget and to fulfill its responsibilities on a timely basis, McKinsey will rely on the Client's timely cooperation, including the Client and the Government of Puerto Rico's making available relevant data, information and personnel, performing any tasks or responsibilities assigned to the Client or the Government of Puerto Rico and notifying McKinsey of any issues or concerns the Client may have relating to the Services. The Client is solely responsible for ensuring that the Government of Puerto Rico cooperates with responding to requests for purposes of the Services. The parties will meet at mutually agreed times to discuss the progress of the Services and to exchange feedback. During the course of the Services, priorities may shift or unexpected events may occur which may necessitate changes to the Services. In this event, the parties will jointly discuss the anticipated impact on the Services and agree on any appropriate adjustments, including to the scope of work, timeframe and budget.

2. COMPENSATION. The Client shall compensate McKinsey on a Firm Fixed Price basis in connection with the Services, as set forth in the Attachments. Any payments made by the Board to McKinsey hereunder are expressed net of any deductions or withholdings that may be applicable in respect of taxes, duties or levies and the Client will pay those amounts to McKinsey, in cleared funds. The parties agree that McKinsey is solely responsible for any applicable withholding and payment of taxes with respect to McKinsey Personnel as required by law. Neither party undertakes, pursuant to his Agreement or otherwise, to perform or discharge any liability or obligation of the other party, whether regulatory or contractual, or to assume any responsibility whatsoever for the conduct of the business or operations of the other party. Consistent with the public purpose of the Client's mandate, this Agreement will be made publicly available subject to Section 5 below. McKinsey will invoice the Client for Deliverables in connection with the Services monthly or as otherwise set forth in the applicable Proposal. Except for Services provided under retainer, all invoices are to be paid in accordance with the court order setting procedures for interim compensation and reimbursement of professionals.

3. CONFIDENTIALITY. Subject to applicable public disclosure laws and the disclosure procedures established by Client that do not otherwise conflict with terms in this agreement, each Party agrees to keep confidential any confidential information furnished by either Party in connection with the Services ("Confidential Information"); provided, however, that the Client may disclose Confidential Information from McKinsey as necessary or desirable to carry out its statutory duties. The Client agrees to provide McKinsey prior notice of its intent to disclose Confidential Information from McKinsey. Without the Client's explicit consent, McKinsey will disclose Confidential Information only to its employees, agents and contractors who have a need to know and are bound to keep it confidential and will use Confidential Information only for purposes of performing the Services. Confidential Information shall be all information other than information that is (i) or becomes publicly available other than as a result of a breach of this agreement, (ii) already known to the Receiving Party, (iii) independently acquired or developed by the Receiving Party without violating any of its obligations under this agreement, or (iv) is legally required to be disclosed. All documents supplied by the Receiving Party Client in connection with the services hereunder will, upon written request, be returned by the Receiving Party to the Disclosing Party or destroyed, provided that the Receiving Party may retain a copy for archival purposes. In performing the Services, McKinsey will use and rely primarily on the Confidential Information and on information available from public sources without having independently verified the same and does not assume responsibility for the accuracy or completeness of the Confidential Information or such other publicly available information and Section 5 herein.

4. INTELLECTUAL PROPERTY. Upon payment in full of McKinsey's Fees associated with the relevant Services, the Client will own all reports, financial models and other deliverables prepared for and furnished to the Client by McKinsey in connection with the Services (the "Deliverables"), save that McKinsey retains ownership of all concepts, know-how, tools, frameworks, models, and industry perspectives developed or enhanced outside of or in connection with the Services (the "McKinsey Tools"), it being understood that none of the McKinsey Tools will contain the Client's

Confidential Information. To the extent the Deliverables include any McKinsey Tools, McKinsey hereby grants the Client a non-exclusive, non-transferable, non-sublicenseable, worldwide, royalty-free license to use and copy the McKinsey Tools solely as part of the Deliverables and subject to the limitations herein on disclosure of McKinsey materials and publicity.

5. DISCLOSURE OF MCKINSEY MATERIALS; PUBLICITY. McKinsey's work for the Client is confidential and for the Client's internal use only; provided, however, the Client may disclose such work to the extent such disclosure is necessary or desirable to carrying out the Client's statutory duties. The Client agrees that it will not disclose McKinsey's name in relation to any disclosure of work hereunder without McKinsey's consent. McKinsey will not disclose the Deliverables to any third parties (including any non-voting Board members) without the Client's prior written permission. McKinsey further agrees not to use the Client's name in any communication with any third party without the other party's prior written permission, including in press releases or other public announcements. If the Client receives a public records request for Deliverables or other documents containing McKinsey information, the Client will allow McKinsey the ability to review the documents prior to disclosure to advise if the documents contain information subject to an exception or exemption to the relevant public records law.

6. SERVING COMPETITORS. It is McKinsey's long-standing policy to serve competing clients and clients with potentially conflicting interests as well as counter-parties in merger, acquisition and alliance opportunities, and to do so without compromising McKinsey's professional responsibility to maintain the confidentiality of client information. Consistent with such practice and McKinsey's confidentiality obligations to its other clients, McKinsey is not able to advise or consult with the Client about McKinsey's serving the Client's competitors or other parties. To avoid situations of potential conflict, McKinsey will not, for a period of one year following an engagement for the Client, assign any consultant who receives Confidential Information in connection with such engagement to a competitively sensitive project, including a directly-conflicting engagement with the Government of Puerto Rico. Notwithstanding the foregoing, the Client understands and agrees that so long as McKinsey has appropriate procedures in place to mitigate any potential conflict, it may serve the Government of Puerto Rico on related matters.

7. INDEMNIFICATION.

(a) Deliverables produced hereunder are not intended as a substitute for financial, investment, legal, accounting or other professional advice, and McKinsey does not intend to supplant the Client or the Government of Puerto Rico's management or other decision-making bodies.

(b) The Client and the Government of Puerto Rico remain solely responsible for its decisions, actions, use of the Deliverables and compliance with applicable laws, rules and regulations. McKinsey agrees to indemnify and hold the Client harmless from and against all loss, liability, damage, cost, or expense (including reasonable attorney fees) ("Losses") to the extent those Losses are determined by a final, non-appealable order or arbitral award to have resulted from McKinsey's gross negligence or willful misconduct in the performance of the Services.

(c) The Client agrees to indemnify and hold McKinsey harmless from any Losses (including the costs of McKinsey's professional time) relating to the Services (including any Losses asserted by the Client, its agents or representatives, or third parties and any Losses sustained by McKinsey when participating in any legal, regulatory, or administrative proceeding relating to the Services), except to the extent those Losses are determined by a final, non-appealable order or arbitral award to have resulted from McKinsey's gross negligence or willful misconduct in the performance of the Services.

(d) The Client further indemnifies McKinsey, including any member, officer or employee thereof including but not limited to the Revitalization Coordination role, in any instance where it is a party, or is threatened to be made a party, to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, against judgments, fines, amounts paid in settlement and expenses (including attorneys' fees) actually and reasonably incurred by him or her in connection with such action, suit or proceeding, unless it acted with bad faith or engaged in intentional misconduct and, with respect to any criminal action or proceeding, unless it knew or should have known the conduct was unlawful. The termination of any act, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that McKinsey (or any of its members, officers or employees) did not satisfy these standards.

Neither party will be liable for any lost profits or other indirect, consequential, incidental, punitive or special damages. In no event shall McKinsey's liability to the Client in connection with the Services relating to an engagement for the Client exceed the amount paid to McKinsey by the Client in connection with such engagement.

8. AUTHORITY OF THE BOARD. The Client represents and warrants it has the authority to enter into this Agreement for the Services. In the event that it is determined that the Client did not have authority to authorize all or part of this agreement, McKinsey may make the sole determination as to whether to terminate the Agreement according to Section 10 herein, or continue with those parts of the Services for which the Client does have authority. The Client agrees to indemnify and hold McKinsey harmless from any Losses (including the costs of McKinsey's professional time) resulting from a breach of this Section 8 and/or a misrepresentation by the Client of authority to act (including any Losses asserted by the Client, its agents or representatives, or third parties and any Losses sustained by McKinsey when participating in any legal, regulatory, or administrative proceeding relating to the Services).


9. CONFLICTS OF INTEREST. The Client agrees that performance of Services hereunder shall not conflict McKinsey from serving the Government of Puerto Rico or any stakeholders to the work, subject to the restrictions in Section 6 – "Serving Competitors."


10. TERM AND TERMINATION. This agreement takes effect on the date the Services commenced and shall continue until terminated in accordance with its terms. Either party may terminate the Services at any time effective upon 30 days written notice to the other. In the event of any termination, the Client will pay McKinsey for the work completed up to the effective date of termination.

11. MISCELLANEOUS. This agreement and the Proposals constitute the entire agreement between the parties, and there are no prior or contemporaneous oral or written representations, understandings or agreements relating to this subject matter that are not fully expressed herein or therein. This agreement and the Proposals shall be governed by and construed in accordance with the laws of the State of New York without regard to conflicts of law principles and shall inure to the benefit of and be binding on the successors and assigns of the Client and McKinsey. The following Sections shall survive the completion or any termination of the Services: 3 (Confidentiality), 4 (Intellectual Property), 5 (Disclosure of McKinsey Materials; Publicity), 6 (Serving Competitors), 7 (Indemnification), 8 (Term and Termination) and 9 (Miscellaneous) and any other provision which by law or by its nature should survive. Neither party may assign its rights or obligations under this agreement to any person or entity without the written consent of the other party, not to be unreasonably withheld, provided, however, that either party may assign its rights and obligations under this agreement to its affiliates upon reasonable written notice to the other party but without the written consent of the other party. Assignment shall not relieve either party of its obligations hereunder. McKinsey is an independent contractor and not the Client's agent or fiduciary. Notwithstanding any course of dealings of the parties at any time or any statement to the contrary contained therein, no purchase order, invoice or other similar document issued by a party shall be construed to modify the terms of this agreement. Rights and remedies provided in this agreement are cumulative and not exclusive of any right or remedy provided at law or in equity.

The Financial Oversight and Management Board for Puerto Rico
(Client)

McKinsey & Company, Inc., Washington D.C.


Name: Natalie A. Jaresko
Title: Executive Director
Date: Sept. 12, 2017


Name: Tyler Duvall
Title: Partner
Date: September 8, 2017

ATTACHMENT 1
Scope of Work
For
Commonwealth Title III Support

Services:

In regards to support for the Commonwealth Title III proceedings to the Board to include:

Activities:

- Participation in and coordination of cross advisor meetings (Board, Commonwealth and/or Stakeholders) regarding Title III related matters
- Preparation of materials necessary for supporting Fiscal Plan litigation, which could include:
 - Assemble fact base regarding process for creation, stress testing and certification of the fiscal plan
 - Assemble fact base regarding additional analyses created for the FOMB with respect to evaluating/stress testing the FY18 fiscal plan
 - Collect and summarize key input sources and supporting analysis for key fiscal plan assumptions
 - Assemble fact base regarding process and supporting analysis used to identify and evaluate key measures proposed and finally included in the fiscal plan
 - Prepare and/or evaluate alternative fiscal plan scenario analyses in support of requested alternative contexts
 - Prepare analyses in support of litigation activities
- As needed, ad-hoc analyses and/or responses to questions regarding litigation or potential litigation relating to the Fiscal Plan or other Commonwealth Title III matters
- As applicable to McKinsey's Services regarding FOMB fiscal plans and work relative to the Commonwealth and its instrumentalities, it is the expectation of McKinsey and the Board that as part of the Services McKinsey shall:
 - Provide expert testimony (at most 2 per quarter)
 - Participate in and/or assist the Board with mediation sessions and Board meetings or conferences, which may include presentations
 - Provide support at related stakeholder interactions, which may include presentations

Deliverable:

- Monthly report regarding liquidity performance and strategic choices on liquidity related to Title III proceedings and/or ad hoc analysis performed within that month.

Support Structure and Cost:

- The cost for this work will be \$740,000 per month and will continue so long as the Commonwealth Title III process continues or the Board no longer believes the support is necessary.
- If additional deliverables are required by McKinsey beyond this core support this contract will be amended to reflect any required support.

Payment Schedule

McKinsey will submit a Monthly Fee Statement for the deliverables provided on or before the 25th day of each calendar month.

ATTACHMENT 2
Scope of Work
for
Title III Support for PREPA

Services:

In regards to work specifically supporting the Title III proceedings for the Board with relation to PREPA, McKinsey will support the Board in the following ways:

1. Coordinate and provide analysis related to development of the transformation plan and plan of arrangement for PREPA

Activities:

The core activities include working directly with the Board, the Executive Director and Board Staff in the following areas (as well as ad hoc and as needed support):

- Establishment of the PREPA working group for Title III, including working group protocol, governance, cadence, targets and coordination
- Lead PREPA working group for Title III, including leading meetings, developing core materials, workplans, agendas and coordination with PREPA, AAFAF and its experts and advisors
- Develop transformation plan for PREPA for Title III which includes but is not limited to:
 - Operational stabilization plans focused on near and immediate term actions to maintain sustainable operations and launch capex programs with specific implementation plans, resourcing and costing supporting their delivery
 - Debt restructuring terms and plans, agreed with creditors to the extent possible
 - Detailed privatization/corporatization plans supported by financial models and market engagement
 - Detailed action plans to implement all measures identified in the Fiscal Plans with additional measures to achieve Board targets
 - Governance and management plans that will enable delivery of actions
 - Stakeholder management plans and demonstrable success in engaging key stakeholders such as regulators
 - Macro-resource planning when required (e.g. updated IRP for PREPA)
 - Clear assessments of economic and social impacts on the people of Puerto Rico
 - Clear timelines for delivery of the plan
- Coordinate development of and approval by the Board of other submissions related to the Title III proceedings, including Plans of Arrangements, financial disclosure, implementation plans, contract assumption and rejection
- Work with Board management and Board PREPA subcommittee to provide updates and take guidance on PREPA transformation and Title III
- Monitor implementation of all aspects of the PREPA transformation plans and Title III plans
- Escalating deviations from plans and defining solutions for compliance

- Conduct limited market engagement as necessary to identify potential privatization options for PREPA
- Lead development of an integrated resource plan for PREPA to support the Transformation Plan in coordination with PREC and PREPA
- As applicable to McKinsey's Services regarding FOMB fiscal plans and work relative to the Commonwealth and its instrumentalities, it is the expectation of McKinsey and the Board that as part of the Services McKinsey shall:
 - Provide expert testimony (at most 2 per quarter)
 - Participate in and/or assist the Board with mediation sessions and Board meetings or conferences, which may include presentations
 - Provide support at related stakeholder interactions, which may include presentations

Deliverables:

A monthly report describing progress against transformation objectives, as well as specific supporting analyses, including:

- Detailed action plans, including e.g. structural solutions, governance, likely economic impacts and operational stabilization
- Synopsis of market perspectives related to different potential options
- Integrated resource plan

Support Structure and Cost:

- The cost for this work will be \$740,000 per month and will continue so long as the Title III process continues or the Board no longer believes the support is necessary.
- If additional deliverables are required by McKinsey beyond this core support this contract will be amended to reflect any required support.

Payment Schedule

McKinsey will submit a Monthly Fee Statement for the deliverables provided on or before the 25th day of each calendar month.

ATTACHMENT 2
Scope of Work
for
Title III Support for HTA

Services:

In regards to work specifically supporting the Title III proceedings for the Board with relation to HTA, McKinsey will support the Board in the following ways:

Coordinate and provide analysis related to development of the transformation plan and plan of arrangement for HTA

Activities:

The core activities include working directly with the Board, the Executive Director and Board Staff in the following areas (as well as ad hoc and as needed support):

- Establishment of the HTA working group for Title III, including working group protocol, governance, cadence, targets and coordination
- Lead HTA working group for Title III, including leading meetings, developing core materials, workplans, agendas and coordination with HTA, AAFAF and its experts and advisors
- Develop transformation plan for HTA for Title III which includes but is not limited to:
 - Operational stabilization plans focused on near and immediate term actions to maintain sustainable operations and launch capex programs with specific implementation plans, resourcing and costing supporting their delivery
 - Debt restructuring terms and plans, agreed with creditors to the extent possible
 - Detailed privatization/corporatization plans supported by financial models and market engagement
 - Action plans to implement all measures identified in the Fiscal Plans with additional measures to achieve Board targets
 - Governance and management plans that will enable delivery of actions
 - Stakeholder management plans and demonstrable success in engaging key stakeholders such as regulators
 - Macro-resource planning when required
 - Clear assessments of economic and social impacts on the people of Puerto Rico
 - Clear timelines for delivery of the plan
- Coordinate development of and approval by the Board of other submissions related to the Title III proceedings, including Plans of Arrangements, financial disclosure, implementation plans, contract assumption and rejection
- Work with Board management and Board HTA subcommittee to provide updates and take guidance on HTA transformation and Title III
- Monitor implementation of all aspects of the HTA transformation plans and Title III plans
- Escalating deviations from plans and defining solutions for compliance
- Support litigation related to the HTA proceedings, which has commenced

- As applicable to McKinsey's Services regarding FOMB fiscal plans and work relative to the Commonwealth and its instrumentalities, it is the expectation of McKinsey and the Board that as part of the Services McKinsey shall:
 - Provide expert testimony (at most 2 per quarter)
 - Participate in and/or assist the Board with mediation sessions and Board meetings or conferences, which may include presentations
 - Provide support at related stakeholder interactions, which may include presentations

Deliverables:

A monthly report describing progress against transformation objectives, as well as specific supporting analyses, including:

- Detailed action plans, including e.g. structural solutions, governance, likely economic impacts and operational stabilization
- Synopsis of market perspectives related to different potential options
- Integrated resource plan

Support Structure and Cost:

- The cost for this work will be \$720,000 per month and will continue so long as the HTA Title III process continues or the Board no longer believes the support is necessary.
- If additional deliverables are required by McKinsey beyond this core support, this contract will be amended to reflect any required support.

Payment Schedule

McKinsey will submit a Monthly Fee Statement for the deliverables provided on or before the 25th day of each calendar month.

EXHIBIT B

Certification of McKinsey Partner Tyler Duvall

UNITED STATES DISTRICT COURT
DISTRICT OF PUERTO RICO

-----X

In re:

PROMESA

Title III

THE FINANCIAL OVERSIGHT AND
MANAGEMENT BOARD FOR PUERTO RICO,

Case No. 17-04780 (LTS)

as representative of

PUERTO RICO ELECTRIC POWER AUTHORITY
("PREPA"),

Debtor.

-----X

CERTIFICATION OF TYLER DUVAL

I, Tyler Duvall, hereby declare the following under penalty of perjury:

1. I am one of the McKinsey Partners providing consulting services related to the above-captioned Title III case.
2. I have personally performed many of the professional services rendered by McKinsey as strategic consultant to the Debtor and am familiar with all other work performed on behalf of the Debtor by the Partners, Associates, and other persons in the Firm.
3. The facts set forth in the foregoing Consolidated Third Monthly Fee Statement: Title III Support for PREPA are true and correct to the best of my knowledge, information, and belief.
4. I have reviewed the Interim Compensation Order and believe that McKinsey's Consolidated Third Monthly Fee Statement: Title III Support for PREPA complies therewith.

Pursuant to 28 U.S.C. §1746, I declare under penalty of perjury that the foregoing is true and correct.

Dated: March 16, 2018
Washington, DC

s/Tyler Duvall

Tyler Duvall
Partner
McKinsey & Company, Inc. Washington DC

EXHIBIT C

Title III Support for PREPA

November 2017

Summary of Work

During the month of November, McKinsey's PREPA Title III Team (team composition and individual activities described in following section) conducted extensive analyses to help inform the Board's perspective on evaluating the current state of PREPA, the electric grid, and how the current Fiscal Plan may be revised to reflect new objectives and implementation post-hurricanes. The work consisted of three primary analyses:

- (1) Transformation Plan guidance, including principles and expectations;
- (2) Macro resource planning, including a fulsome understanding of damage and implications for reconstruction and future investment;
- (3) Operational analysis focused on improvements to PREPA and understanding liquidity.

McKinsey's PREPA Title III Team work helped frame an early perspective on principles to guide the development of the new Fiscal Plan, potential for operational improvements, and an understanding of the current grid and options for the future. These activities also identified outstanding key questions the Board may need to consider in its evaluation of the Government's submitted fiscal plan. Throughout the month, the McKinsey team conducted weekly Transformation Plan Working Group sessions with key stakeholders and held conversations with a variety of experts to help inform the Board's next steps. Most importantly, the November work set the stage for an independent perspective on key components of the Fiscal Plan and communication to set expectations for the Fiscal Plan submission in the month of December.

McKinsey's PREPA Title III Team Detailed Activities by Deliverable

- Established criteria for evaluation of Fiscal Plan
 - Identified key components in a Fiscal Plan which would lead to expedited restoration and a sustainable power sector in Puerto Rico
 - Developed set of guiding principles aligned with principles established for Commonwealth to incorporate into PREPA Fiscal Plan
 - Aligned with government on roles and responsibilities for Transformation Plan
 - Aligned with government on analyses needed for Transformation Plan updates
 - Briefed Board on evaluation of drafts/working papers related to Fiscal Plan
- Organized weekly Transformation Plan Working Group

- Established weekly meeting to monitor key concerns, align on expectations for Fiscal Plan, and provide forum for communication and sharing (working group meetings – Nov 10, 15, 22)
- Built dashboard to understand restoration goals and progress
- Set up weekly liquidity dialogue to understand near-term position
- Support models and documentation for key components
 - Developed bottom-up model to understand implications of damage and reports
 - Developed model to understand cost of restoration and implications of resiliency and generation additions on long-term capital expenditures and operating expenses in different scenarios
 - Created a list of data needed to inform view and obtained initial figures
- CTO planning and operational support for PREPA
 - Participated in three CTO planning meetings to develop a CTO day 1 action plan, short-term goals, and options for further action
 - Created go-forward plan for Board post-CTO decision
 - Submitted Critical Projects Final Report draft for Energy Answers to Revitalization Coordinator for review
- Established path towards Privatization
 - Evaluated trade-offs between different privatization and other short-term management options
 - Created preliminary set of KPIs to evaluate bids

McKinsey's PREPA Title III Team Detail and Contributions

The McKinsey PREPA Title III Team was led by McKinsey Partners Tyler Duvall, Bertil Chappuis and Matt Rogers, who provided overall quality control and stakeholder management, Expert Associate Partner Aaron Bielenberg, who provided additional direction to the working team, and Associate Partner Amy Wagner, who provided expert content. The full time working team was composed of Engagement Manager Sarah Brody and four full-time Associates and Business Analysts.

- Bertil Chappuis (Senior Partner):
 - Joined Executive Board and PREPA subcommittee meetings to review progress and advise on key PREPA decisions
 - Provided overall quality control on team content and stakeholder management with Board, FOMB staff and co-advisors
 - Reviewed and provided feedback on key planning assumptions related to the transformation plan

■ Matt Rogers (Senior Partner)

- Provided expert support on options to rebuild the power sector in Puerto Rico following hurricane Maria to provide perspective on PREPA Transformation Plan revisions for Title III following Hurricane Maria
- Provided direction on methodology and approach for least cost generation modeling workstream
- Provided overall quality control on team content and stakeholder management with Board, FOMB staff and co-advisors

■ Tyler Duvall (Partner)

- Weekly conversations with Board members, Executive Director and staff to evolve PREPA Title III strategy and approach
- Participated in weekly problem-solving sessions with team to guide work and address cross team issues
- Joined Executive Board and PREPA subcommittee meetings to review progress and advise on key PREPA decisions
- Reviewed and provided input for all team deliverables (in particular, Board update, interim manager scope)
- Weekly conversations with McKinsey leadership, Board members and other stakeholders, and team members to address key emerging issues
- Guided re-scoping of PREPA transformation plan work in aftermath of Hurricane Maria to address catastrophic damage to PREPA assets

■ Aaron Bielenberg (Associate Partner)

- Guided development of reconstruction model to understand investment and long-term costs of rebuild and resiliency scenarios
- Guided development of material for subcommittee meetings and weekly working groups with government
- Led discussions with Board subcommittee, Board executive team, and weekly working group with government
- Led development of principles for inclusion in PREPA Fiscal Plan
- Led development of roadmap for CTO actions
- Weekly conversations with Board members, Executive Director and staff to evolve PREPA Title III strategy and approach
- Participated in weekly problem-solving sessions with team to guide work and address cross team issues
- Executive Board and PREPA subcommittee meetings to review progress and advise on key PREPA decisions

- Reviewed and provided input for all team deliverables (in particular, Board update, interim manager scope)
- Weekly conversations with McKinsey leadership, clients and team members to address key emerging issues
- Amy Wagner (Associate Partner)
 - Provided expert guidance and review for options to rebuild the power sector in Puerto Rico
 - Supported team to develop recommendations for Board decisions on Fiscal Planning, ownership and management model, reconstruction, and immediate strategy for Board
 - Participated in working group and Board calls to provide expert opinion and perspective on power sector development and rebuilding in Puerto Rico
- Sarah Brody (Engagement Manager)
 - Structured weekly working team goals, priorities, and workplan, in collaboration with PREPA team leadership
 - Scheduled and led twice-weekly check-ins with team leadership and working team to refine analyses and presentation
 - Coordinated all interaction with PREPA advisory group, including scheduling of Transformation Plan working groups and follow-up conversations on select topics
 - Developed briefing on post-hurricane changes at PREPA for Board subcommittee
 - Supervised development of material for Transformation Plan working group discussions, including liquidity updates, roles and responsibilities for plan development, and engagement calendar
 - Led discussions on liquidity, Transformation Plan requirements, and PREPA data requests during Transformation Plan working group meetings on Nov 10, 15, 22
 - Led development of reconstruction and generation models to understand investment and long-term costs of rebuild and resiliency scenarios
 - Supervised development of Day 1 and Week 1 plans for Board-appointed CTO for discussions on November 2, 9
 - Led development of materials for PREPA subcommittee discussion on November 29, including post-hurricane briefing summary, key upcoming Board decisions, initial assessment of funding needs and sources, and assessment of Build Back Better plan
 - Participated in November 29 PREPA subcommittee meeting
- Mike Barg (Associate)
 - Developed data request for PREPA to inform due diligence on PREPA-provided analysis on draft Transformation Plan
 - Performed analysis of PREPA cash flow forecast to assess liquidity concerns and potential actions PREPA should take for engagement with PREPA during working group meetings and for Board briefing during Nov 29 subcommittee

- Updated list of roles, responsibilities and analyses required for PREPA Transformation Plan
- Developed proposed calendar for detailed engagement with PREPA advisors on working group topics
- Participated in PREPA Transformation Plan working group meetings on Nov 10, 15 and 20
- Provided initial estimate of reconstruction costs and potential funding sources to Board during Nov 29 subcommittee
- Provided update to Board on status of PREPA power restoration and reconstruction during Nov 29 subcommittee
- Participated in PREPA subcommittee meeting on Nov 29

■ Alex Brihac (Associate)

- Developed set of cost benchmarks to for transmission and distribution system components to estimate cost of rebuilding grid without resiliency
- Refined estimate of extent of hurricane damage to PREPA's power grid to model timeline and funding required to repair
- Developed set of cost benchmarks for resiliency improvements to transmission and distribution system (e.g. undergrounding lines) to model potential funding requirements to build a resilient power grid
- Developed week 1 plan for Board-appointed CTO, including reporting structure and immediate actions, for discussions with Board-appointed CTO on Nov 2, 9
- Developed month 1 plan for Board-appointed CTO, including priority areas of focus and advisory council support, for discussions with Board-appointed CTO on Nov 2, 9
- Provided initial assessment of Build Back Better report on funds needed to rebuild PREPA's infrastructure to Board during Nov 29 subcommittee

■ Stephen Jacobson (Senior Business Analyst)

- Developed a set of principles to incorporate into the PREPA Fiscal Plan for presentation to the Board during the PREPA subcommittee meeting on Nov 29
- Developed an initial overview of concession and federalization options for PREPA for presentation to the Board during the PREPA subcommittee meeting on Nov 29
- Provided overview of current state of roles and responsibilities of the energy regulator versus the FOMB in regards to PREPA with guidance from counsel, for future analysis on the transition to a new energy regulator
- Developed initial resiliency metrics and targets for incorporation into PREPA's Fiscal Plan
- Participated in PREPA subcommittee meeting on Nov 29

■ Maria Bernier (Business Analyst)

- Developed model to understand cost implications of restoration and grid resiliency investments
- Modeled long-term fuel and purchased power costs for new generation scenarios, including implications on long-term capex and opex, to provide preliminary view of cost reduction potential and investment required to realize for transformed PREPA
- Developed initial set of metrics by which to evaluate bids for a PREPA privatization or concession
- Developed initial view of funding sources for restoration and long-term rebuilding, for discussion with Board-appointed CTO on Nov 9
- Developed macro resource planning framework to discuss with PREPA advisory team at working group meeting Nov 15
- Participated in PREPA Transformation Plan working group meetings on Nov 10 and 15

December 2017

Summary of Work

During the month of December, McKinsey's PREPA Title III Team conducted analyses to develop the Board's perspective on evaluating the current state of PREPA, the electric grid, and work in progress Fiscal Plan which is being revised to reflect goals and implementation post-hurricanes. The work consisted of three major buckets of analysis:

- (1) Macro resource planning including an understanding of optimal cases for generation, grid design, and market structure;
- (2) Industry structure including paths towards privatization and implications;
- (3) Regulatory design to incentivize best practices and encourage investment.

The work led to a publicly distributed view on principles to guide the development of the new Fiscal Plan, a view on optimal grid design components, and an understanding of privatization potential including paths, stakeholders, roles, and interests. These activities also identified outstanding questions the Board may need to consider in its evaluation of Government's submitted Fiscal Plan and privatization options. The December work sets the stage for a review of the upcoming Fiscal Plan and a view which can be incorporated or used as a benchmark for the Plan.

McKinsey's PREPA Title III Team Detailed Activities by Deliverable

- Establish view on key components of Fiscal Plan including starting points for IRP decisions
 - Developed demand forecast to incorporate new environment
 - Built view on generation potential in new potential scenarios
 - Evaluated grid and market structures to determine best fits for Puerto Rico

- Aligned with government on analyses needed for Transformation Plan updates
- Briefed Board on key components of Fiscal Plan
- Conduct Transformation Plan Working Group
 - Continued weekly meetings to monitor key concerns, aligned on expectations for Fiscal Plan, and provide forum for communication and sharing
 - Maintained weekly liquidity dialogue to attempt to understand near-term position
- Support models and documentation for key components
 - Built financial model to understand cost drivers and impact on rate structure
 - Demand forecast to provide view on demand environment where typical regression may not be applicable due to major shift
 - Built in-depth energy generation model to comprehensively evaluate options
- Evaluate paths towards privatization
 - Created path towards privatization which incorporated returns under different models, timing considerations, stakeholders, tools available to the Board, and required stakeholder actions (e.g., regulatory structure and federal funding)
 - Created a list of KPIs to evaluate bids and hold investors accountable for performance
- Explore regulatory structures and applicability in Puerto Rico
 - Evaluated tradeoffs between structures across value chain and steps required for implementation
 - Identified alternatives for Puerto Rico across a range of factors
- Crafted public letter outlining principles guiding evaluation of Fiscal Plan

McKinsey's PREPA Title III Team Detail and Contributions

The McKinsey team continued to be led by Partners (Tyler Duvall, Bertil Chappuis and Matt Rogers) who provided overall quality control and stakeholder management as well as an Expert Associate Partner (Aaron Bielenberg), who led the working team. An additional Associate Partner (Amy Wagner) provided expert content. The Working team consisted of a day-to-day Engagement Manager and two full-time Associates and Business Analysts.

- Bertil Chappuis (Senior Partner):
 - Executive Board and PREPA subcommittee meetings to review progress and advise on key PREPA decisions
 - Participated in discussions related to PREPA's Title III strategy and approach
 - Reviewed and provided feedback on analysis related to the gov't draft fiscal plan
- Matt Rogers (Senior Partner)

- Provided expert support on launch, development and assumptions of least cost generation model used to analyze the PREPA Transformation Plan
- Provided expert support on development of materials for discussion with Board on optimal industry structure for power sector in Puerto Rico, including evaluation of pros and cons of various privatization structures
- Provided expert support on development of material on optimal regulatory model and structure for Puerto Rico in transformation context
- Provided overall quality control on team content and stakeholder management with Board, FOMB staff and co-advisors
- Tyler Duvall (Partner)
 - Weekly conversations with Board members, Executive Director and staff to evolve PREPA Title III strategy and approach. Weekly problem-solving sessions with team to guide work and address cross team issues.
 - Executive Board and PREPA subcommittee meetings to review progress and advise on key PREPA decisions
 - Reviewed and provided input for all team deliverables, with focused engagement on federal funding related issues and concession/privatization model
- Aaron Bielenberg (Associate Partner)
 - Guided development of independent perspective on targets and content of PREPA Fiscal Plan, including a post-hurricane demand forecast, optimal generation scenarios, federal funding scenarios, and regulatory and industry structure
 - Led subcommittee meetings and weekly working groups with government
 - Led initial discussions of considerations for sale of PREPA as part of bankruptcy proceedings
 - Expert input to team on matters related to industry structure and privatization options to support Board presentations and discussions
 - Weekly conversations with Board members, Executive Director and staff to evolve PREPA Title III strategy and approach. Weekly problem-solving sessions with team to guide work and address cross team issues.
 - Executive Board and PREPA subcommittee meetings to review progress and advise on key PREPA decisions
 - Reviewed and provided input for all team deliverables
 - Weekly conversations with McKinsey leadership, clients and team members to address key emerging issues
- Amy Wagner (Associate Partner)
 - Provided expertise on regulatory model design and how to account for factors specific to Puerto Rico, supported drafting of Board guidance on optimal regulatory model description

- Provided guidance on energy generation modelling
- Provided insight on the appropriateness of new energy technologies for Puerto Rico's power sector

■ Sarah Brody (Engagement Manager)

- Structured weekly and monthly working team goals, priorities, and workplan, in collaboration with PREPA team leadership
- Scheduled and led twice-weekly check-ins with team leadership and working team to refine analyses and presentation
- Coordinated all interaction with PREPA advisory group, including scheduling of Transformation Plan working groups and follow-up conversations on select topics
- Participated in PREPA working group discussions on Dec 1, 6, 13 to align on expectations for the PREPA Fiscal Plan submission; led discussions on updated liquidity forecasts and power restoration forecasts
- Briefed Board members on in-progress analysis of PREPA Fiscal Plan content during non-subcommittee individual briefings
- Participated in Dec 7 meeting with Board and PREPA advisory team to review and discuss timeline for transaction and Title III exit process
- Led development of independent perspective on targets and content of PREPA Fiscal Plan, including a post-hurricane demand forecast, optimal generation scenarios and financial modeling, federal funding scenarios, and regulatory and industry structure; for briefings to Board during subcommittees on Dec 7, 18, 22
- Coordinated addition of generation modeling expertise to team structure in December and moving forward
- Participated in PREPA subcommittee meeting on Dec 7; led section of discussion related to demand modeling

■ Mike Barg (Associate)

- Developed demand forecast for use in energy generation modeling and evaluation of Fiscal Plan including views on impacts of population loss and additional factors
- Created demand scenarios and rationale driving different potential demand outcomes for Board briefing on December 7
- Provided view on grid characteristics and capital investment necessary for optimal grid on December 7
- Created summary of restoration efforts for presentation to Board subcommittee on December 7 and 18
- Reconciled external views to develop view on damage and rebuilding potential for presentation to Board subcommittee on December 7 and 18
- Created material for weekly working groups including agendas and liquidity analysis updates

- Participated in weekly working groups on December 1, December 6 and December 13 to align on expectations for Fiscal Plan
 - Consolidated findings on restoration, cash position and other key areas for presentation to Board subcommittee and internal team weekly
 - Analyzed NYPA Build Back Better plan to understand and incorporate into future analyses beginning week of December 13
 - Developed a set of grid design options and evaluated the costs and benefits of each approach across multiple parameters for presentation on December 18
 - Outlined proposed path for PREPA transformation planning process during Board subcommittee meeting on December 18
 - Onboarded energy analysts and drove towards initial generation portfolio perspectives
 - Analyzed tradeoffs between vertically integrated and disaggregated utilities to understand tradeoffs and optimal characteristics for Puerto Rico, for presentation during December 22 Board subcommittee meeting
 - Explained funding pools, applicability, and potential across various categories of spending during Board subcommittee meeting on December 22
- Stephen Jacobson (Senior Business Analyst)
- Created a list of decisions for the Board to make on privatization and regulation and collaborate with the broader team to develop a perspective on each for the 12/11 PREPA subcommittee meeting
 - Evaluated potential industry structures to brief the Board during the 12/16 PREPA subcommittee meeting
 - Built a financial model to understand cost drivers and impact on rate structure under different industry structures
 - Explored paths towards privatization by evaluating returns under different models, timing considerations, stakeholders and tools available to the Board under PROMESA for the 12/16 PREPA subcommittee meeting
 - Evaluated regulatory structures and applicability in Puerto Rico and developed a recommendation with the team on the most appropriate for Puerto Rico for the 12/16 PREPA subcommittee meeting
 - Outlined the pathway to a Title III transaction with input from counsel for the 12/16 PREPA subcommittee meeting
 - Analyzed how different transaction models could affect federal funding levels for the 12/22 PREPA subcommittee meeting
 - Created a map of all stakeholders involved with PREPA and a potential transaction or transformation for the 12/22 PREPA subcommittee meeting
 - Created an initial view of potential rate savings through financial modelling of the utility after a transformation for the 12/22 PREPA subcommittee meeting
 - Participated in PREPA subcommittee meetings on 12/11, 12/16 and 12/22

January 2017

Summary of Work

During the month of January, McKinsey's PREPA Title III Team conducted analyses and diligence to develop the Board's perspective on the latest PREPA Fiscal Plan, submitted in draft form January 10th and to be certified in March, which will be revised to reflect goals and implementation post-hurricane. The work consisted of three major buckets of analysis:

- (1) Developing the Board's perspective on the PREPA revised Fiscal Plan: This work consisted of four major categories of analysis: (1) Macro resource planning including an understanding of optimal cases for generation, grid design, and market structure in the new projected demand environment; (2) Industry structure including paths towards privatization and implications; (3) cost saving opportunities through overhead reduction and subsidy reform; and (4) rate structure and design to enable a sustainable utility operating model while preserving customer flexibility; as well as diligence of PREPA's Fiscal Plan. This work led to a set of required revisions to the PREPA Fiscal Plan communicated to the Government and PREPA through a Notice of Violation issued February 4th, as well as a Board perspective on the pathway to achieve reliable, resilient power at lower electricity rates in Puerto Rico.
- (2) Developing a perspective on the Government's proposed model for an energy regulator: This work consisted of developing an independent perspective on the ideal future state energy regulator in Puerto Rico, as well as evaluating proposals, both in the Commonwealth Fiscal Plan and in proposed Puerto Rico legislation, by the Government for a future state energy regulator. This work led to an aligned view with the Government on the needed model to ensure a robust and independent energy regulator.
- (3) Diligence on a request for emergency financing to be provided from the Commonwealth to PREPA: This work consisted of working sessions, document, and data review to assess the need for a loan proposed by the Commonwealth to PREPA for immediate liquidity needs, as well as diligence on potential cash management measures for PREPA to undertake. This work led to a set of agreed-upon cash management data and metrics, with timelines and targets, to be provided by PREPA to the Board as part of the reporting requirements for receipt of the loan.

McKinsey's PREPA Title III Team Detailed Activities by Deliverable

- Developing Board's perspective on the PREPA revised Fiscal Plan
 - Refined view of demand forecast and least cost power generation outlook; translated into potential fuel cost savings

- Developed perspective on utility concession model, focusing on viability in Puerto Rico
- Analyzed existing power sector concession examples to create a potential framework for PREPA
- Analyzed potential realistic scenarios for federal funding and implications for utility financial structure
- Developed model for rate structure and design choices
- Developed financial model for future state utility operator
- Estimated potential operations and maintenance savings from PREPA achieving efficiencies in line with mainland US utilities
- Analyzed PREPA’s draft Fiscal Plan against Board perspective
- Developed set of initial and final required revisions for PREPA’s Fiscal Plan as a condition of certification
- Developing a perspective on the Government’s proposed model for an energy regulator
 - Analyzed case examples and existing models to develop a perspective on the preferred regulatory model in Puerto Rico
 - Conducted diligence on proposal by Government within draft Commonwealth Fiscal Plan and within legislation proposed in the Puerto Rico House and Senate to replace current state energy regulator with a consolidated Public Services Commission
 - Led meetings with PREPA and Board advisors to develop a shared view of the end state energy regulator and transitional state to achieve end state
 - Presented and aligned on final view of energy regulator with Board and Government
- Diligence on the request for emergency financing to be provided by the Commonwealth the PREPA
 - Led diligence session with Board and Government to develop view of current cash flow situation and cash management initiatives currently under way
 - Developed request for documentation supporting current cash flow situation, e.g. AP/AR aging report, purchased power payment record and contract terms
 - Developed cash management initiatives with target levels of cost reduction or revenue enhancement, milestones, and reporting requirements, to be included as part of regular reporting to Board during period of loan withdrawals
 - Advised counsel on loan terms and conditions, e.g. size and frequency of allowable draws

McKinsey’s PREPA Title III Team Detail and Contributions

The McKinsey team continued to be led by Partners (Tyler Duvall, Bertil Chappuis and Matt Rogers) who provided overall quality control and stakeholder management as well as an Expert Associate Partner (Aaron Bielenberg), who led the working team. An additional Associate Partner

(Amy Wagner) provided expert content. The Working team consisted of a day-to-day Engagement Manager and two full-time Associates and Business Analysts.

■ Bertil Chappuis (Senior Partner):

- Joined Executive Board and PREPA subcommittee meetings to review progress and advise on key PREPA decisions
- Participated in working session with team regarding developing assessment of latest PREPA draft fiscal plan
- Participated in meetings with Board regarding review of CW financing facility

■ Matt Rogers (Senior Partner)

- Provided expert support on options to rebuild the power sector in Puerto Rico following hurricane Maria to provide perspective on PREPA Fiscal Plan revisions for Title III following hurricane Maria
- Provided overall quality control on team content and stakeholder management with Board, FOMB staff and co-advisors
- Provided expert input on structuring and outcomes of CW financing facility diligence sessions with PREPA and PREPA advisors
- Provided team with expert support on least cost generation resource planning, cash management targets and practices and comparative regulatory practice to support development of Board materials
- Joined Executive Board and PREPA subcommittee meetings to review progress and advise on key PREPA decision

■ Tyler Duvall (Partner)

- Weekly problem-solving sessions with team to guide work and address cross team issues.
- Executive Board and PREPA subcommittee meetings to review progress and advise on key PREPA decisions
- Reviewed and provided input for team deliverables with specific support on federal funding and privatization options
- Guided stakeholder management at the FOMB staff and Board level
- Guided strategy for engagement with the Federal Government on PREPA Fiscal Planning and privatization process

■ Aaron Bielenberg (Associate Partner)

- Guided development of independent perspective on targets and content of PREPA Fiscal Plan, including a post-hurricane demand forecast, optimal generation scenarios, federal funding scenarios, operations and maintenance costs, and regulatory and industry structure

- Weekly conversations with Board members, Executive Director and staff to evolve PREPA Title III strategy and approach. Weekly problem-solving sessions with team to guide work and address cross team issues.
- Led executive Board and PREPA subcommittee meetings to review progress and advise on key PREPA decisions
- Reviewed and provided input for all team deliverables (in particular, Board and subcommittee updates, regulatory model, CW financing cash management milestones and targets)
- Weekly conversations with McKinsey leadership, clients and team members to address key emerging issues
- Amy Wagner (Associate Partner)
 - Provided expertise on concession, rate, and utility design for Puerto Rican electric utility
 - Analyzed proposed Fiscal Plan and statements by government to inform Board process and reactions
 - Provided guidance on energy generation modelling
 - Provided insight on the appropriateness of new energy technologies for Puerto Rico's power sector
- Sarah Brody (Engagement Manager)
 - Structured weekly and monthly working team goals, priorities, and workplan, in collaboration with PREPA team leadership
 - Scheduled and led twice-weekly check-ins with team leadership and working team to refine analyses and presentation
 - Coordinated all interaction with PREPA advisory group, including scheduling of diligence sessions on Commonwealth Loan and discussions on revisions needed to the PREPA Fiscal Plan
 - Scheduled and led briefings with Board staff members prior to key meetings with the Board and / or PREPA advisors on the PREPA Fiscal Plan and Commonwealth Loan request
 - Led PREPA subcommittee meetings on 1/15 and 1/18 to evaluate the PREPA Fiscal Plan submission against Board independent perspective
 - Participated in Board strategy session on 1/20 related to PREPA Fiscal Plan required revisions and approval of loan from Commonwealth to PREPA
 - Led development of independent perspective on targets and content of PREPA Fiscal Plan, including a post-hurricane demand forecast, optimal generation scenarios, federal funding scenarios, operations and maintenance costs, regulatory and industry structure, and rate structure and design
 - Supervised development of diligence questions and briefing on Commonwealth Loan request during Board strategy session on 1/20

- Led diligence sessions with PREPA and Board advisory group on 1/11 and 1/17 to develop understanding of PREPA current state liquidity forecast and potential cash management measures, for purposes of Board approval of the loan from the Commonwealth to PREPA
 - Led evaluation and analysis of PREPA's Fiscal Plan and development of key revisions required for certification for presentation in PREPA subcommittees 1/15 and 1/18 and presentation to full Board during strategy session on 1/20
 - Led working group meetings with PREPA and advisors on regulatory model and generation and demand forecasting
 - Participated in mediation sessions with PREPA creditors on PREPA operations, power restoration status, and cash management
- Mike Barg (Associate)
- Evaluated PREPA 13-week cash flow forecast and budget updates on a weekly basis and created a list of cash management opportunities and actions which could be taken to pursue them
 - Conducted diligence on proposed Commonwealth loan to PREPA to address immediate liquidity issues and created list of cash management items and data provisions to incorporate into loan agreement
 - Met with PREPA advisors to address questions regarding loan during initial loan diligence meeting on January 11
 - Researched utility ownership models and analyzed implications for Puerto Rico across various parameters including but not limited to cost, expertise, incentives, operations, and other characteristics for presentations to Board beginning on January 10 and 18
 - Developed an expanded list of diligence questions and attended follow-up meetings with PREPA advisors to address additional questions on January 17 and January 23
 - Evaluated proposed Fiscal Plan; identified areas for improvement and further evaluation for presentation during Board subcommittee meetings on January 15 and 18
 - Contributed to development of draft of independent Fiscal Plan perspective, incorporating key areas of proposed Fiscal Plan and conducting outstanding analysis requested with data provided; including on finalization of view on power demand and generation outlook for Puerto Rico for presentation during Board meetings on January 15 and 20
 - Worked with PREPA team throughout January to inform areas of Fiscal Plan including demand, generation and grid design based on internal analyses
 - Explained view on importance of IRP and need for consideration within Fiscal Plan during Board meeting on January 18
 - Created briefing presentation on loan request and diligence results including revenue loss estimates, cash management measures, negotiation status, and considerations for discussion during diligence meetings in late January and the Board subcommittee meeting on January 18

- Stephen Jacobson (Senior Business Analyst)
 - Developed a framework and specific criteria for evaluating the PREPA Fiscal Plan for the 1/10 Board staff meeting
 - Created a list of tools the FOMB or energy sector regulator could use to enforce compliance with a certified Fiscal Plan for the 1/10 Board staff meeting
 - Analyzed grid defection scenarios to determine the target electricity rates for Puerto Rico that must be achieved to ensure a sustainable customer base for a 1/12 discussion with the Treasury Department and as contribution to Board's independent perspective on the PREPA Fiscal Plan
 - Compared PREPA's steady-state operating and capital costs to its revenue projections to determine the long-term sustainability of its business model for a 1/12 discussion with the Treasury Department
 - Created a set of requirements under which federal funding could be controlled and used most effectively for a 1/12 discussion with the Treasury Department and as contribution to Board's independent perspective on the PREPA Fiscal Plan
 - Evaluated the PSEG-LIPA concession model as a potential example for Puerto Rico for a 1/12 discussion with the Treasury Department
 - Compiled a list of how PREPA's Fiscal Plan submission aligns with the FOMB's requirements for a 1/15 PREPA subcommittee pre-meeting
 - Created a framework for a new energy sector regulator in Puerto Rico including a structure, mandate, and regulatory tools for a 1/18 PREPA subcommittee meeting
 - Benchmarked PREPA's operational costs against a set of peer utilities to size potential savings opportunities for a 1/18 PREPA subcommittee meeting
 - Updated an initial view of potential rate savings through financial modelling of the utility after a transformation under multiple funding scenarios for the 1/21 PREPA subcommittee meeting
 - Compared a T&D concession model with privatized generation against other options across a broad set of criteria, including cost, for a 1/21 PREPA subcommittee meeting
 - Designed constraints for a new electricity rate structure and proposed a sample solution that achieves all goals for the power sector as a contribution to the Board's independent perspective on PREPA's Fiscal Plan
 - Participated in 1/10, 1/15, 1/18 and 1/21 meeting with the PREPA subcommittee and/or FOMB executive staff

EXHIBIT D

Invoices
(Nov 2017, Dec 2017, Jan 2018)

McKinsey&Company

The Financial Oversight and Management
Board for Puerto Rico
PO Box 195556
San Juan, Puerto Rico 00919-5556

ATTN: Promesa Assistant
accountspayable@promesa.gov

Invoice No: DCG-GPC017-4885R

Consulting Agreement
Client for Strategic Consulting support related to the Title III
Cases
Effective Agreement Date: July 3, 2017

Invoice Date: 2/21/2018

Net 30

FFP Payment Schedule for PREPA Services

Invoice PoP: November 1, 2017 – November 30, 2017

Gross invoice amount for services performed outside Puerto Rico:	\$	680,800.00
Gross invoice amount for services performed in Puerto Rico:	\$	83,380.28
Subtotal	\$	764,180.28
Less withholding tax deducted at source	\$	(24,180.28)
Net Invoice Payable:	\$	740,000.00

Invoice PoP: December 1, 2017 – December 31, 2017

Gross invoice amount for services performed outside Puerto Rico:	\$	740,000.00
Gross invoice amount for services performed in Puerto Rico:	\$	-
Subtotal	\$	740,000.00
Less withholding tax deducted at source	\$	-
Net Invoice Payable:	\$	740,000.00

Invoice PoP: January 1, 2018 – January 31, 2018

Gross invoice amount for services performed outside Puerto Rico:	\$	666,000.00
Gross invoice amount for services performed in Puerto Rico:	\$	104,225.35
Subtotal	\$	770,225.35
Less withholding tax deducted at source	\$	(30,225.35)
Net Invoice Payable:	\$	740,000.00

Total Invoice Amount: \$2,220,000.00

Please wire transfer payment to:
McKinsey & Company, Inc.
Citibank N.A.
Bank Account Number: 30420698
Bank ABA Routing Number: 021000089

If remitting by check please send check to:
McKinsey & Company, Inc.
P.O. Box 7247-7255
Philadelphia, PA 19170-7255

Federal Tax ID#: 56-2405213

Please reference the invoice number and invoice date on your remittance advice.

For advice or questions on remittances, please contact Pamela Wertz 202-662-0060 or Jordan Mandell 202-662-0938.

EXHIBIT C

EXHIBIT C

LIST OF MCKINSEY PROFESSIONALS

NAME OF PROFESSIONAL	TITLE
Mike Barg	Associate
Maria Bernier	Business Analyst
Aaron Bielenberg	Associate Partner
Alex Brihac	Associate
Sarah Brody	Engagement Manager
Bertil Chappuis	Senior Partner
Tyler Duvall	Partner
Thomas Dohrmann	Senior Partner
Steven Jacobson	Senior Business Analyst
Scott Perl	Associate Partner
Matt Rogers	Senior Partner
Amy Wagner	Associate Partner